Compendium of

Accounting Standards for Local Bodies (ASLBs)

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

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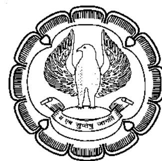
Accounting Standards for Local Bodies (ASLBs)



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Foreword

73rd and 74th constitutional amendments brought an unprecedented change in the philosophy and role of the Local Self Governments in India by entrusting additional powers and responsibilities on the local bodies. Consequently, in our democratic society, the local bodies are supposed to be publically accountable and are expected to respond to the needs of the citizens and other stakeholders.

In this changed scenario, financial reporting quality of local bodies assumes a great importance as it is a means towards ensuring or achieving two most significant objectives i.e. transparency and accountability. Therefore, it is pertinent that information contained in the financial reports should be reliable and transparent which should indicate ability of local bodies to achieve their developmental goals, meet their programme targets and their efficiency in the use of resources so as to make rational decisions by themselves and by various stakeholders such as for the concerned government as it is the prime provider of funds /grants to the local bodies. This is achievable, if the financial statements are prepared using accrual based high quality financial reporting Standards.

The ICAI, being the premier Accounting Standard setting body in India, has been issuing Accounting Standards for Local Bodies (ASLBs) through Committee on Accounting Standards for Local Bodies (CASLB) since 2005, which lays down the sound accounting principles for local bodies that will improve the quality of their financial reporting and bring consistency and comparability. These ASLBs are considered by the Technical Committee on Budget and Accounting Standards for Local Bodies constituted by the Ministry of Urban Development (MoUD) and the Ministry of Panchayati Raj (MoPR), respectively, for recommending the same to the State Governments for implementation.

Since, at present, the local bodies that have migrated to accrual basis of accounting are following National Municipal Accounting Manual (NMAM), it

is pertinent to mention that the NMAM is also considered or recognised while formulating the ASLBs and these are being issued as an extension of the NMAM and are supplementary to the same as these contain additional guidance. Presently, apart from the preface to the Accounting Standards for Local Bodies, there are 11 issued ASLBs, which are included in this Compendium. I heartily congratulate CA. S.C Vasudeva, CA. K.P Khandelwal, CA. Jayant Gohkhale, and CA. J Venkateswarlu, Past Chairmen of the CASLB for working in the direction of formulating various ASLBs and the Preface. It is felt that these pronouncements published in this Compendium would prove to be of convenience to the users.

I would also like to congratulate CA. S. Santhanakrishnan, current Chairman, CASLB, CA. Nilesh S. Vikamsey, Vice Chairman, CASLB and other members of the Committee for the Council Year 2015-16, for bringing out this publication. I firmly, believe that this first edition of the Compendium would be immensely useful to all concerned.

New Delhi
June 24, 2015

CA. Manoj Fadnis
President

Preface

Local bodies constituted as either rural or urban play a major role in governance. They take care of the planning, development and administration of local areas consisting of villages, towns or cities. In the nation's journey towards becoming an economic power, local bodies play the role of a regulator, service provider and an agent taking the government's scheme to the people. With the government's thrust on make in India, housing for all, clean India and smart cities to name a few, there is an unprecedented demand for infrastructure and civic services. To meet such demands and fulfil their services, local bodies are expected to raise above the bar, meet the timelines, improve efficiency and compete with their counterparts in attracting funds. The local bodies which were hitherto operating on government funds and local tax collections may have to look beyond for fund raising. This has necessitated such bodies to become more transparent in their accounting and financial reporting, bring greater accountability, and follow detailed disclosure norms to attract external funds.

When we look at the history of system of accounting in local bodies, it has always been a cash-based system with its own pitfalls. Though the accounting reforms of such bodies were started way back during 1980-90 it was during the 11the Finance commission, some major institutional accounting reforms in municipal bodies have happened. In the year 2001, the Honourable Supreme Court of India, while delivering a judgement recognised the defects of single cash based accounting system in urban local bodies. It directed the Government to develop guidelines for moving towards full cost based accrual accounting system in Urban Local Bodies (ULB). In addition, the ULBs were also required to adopt Double Entry Accounting System (DEAS) to obtain funds under Urban Reforms Incentive Funds Scheme (URIF) and Jawaharlal Nehru National Urban Renewal Mission (JNNURM). Issuance of National Municipal Accounting Manual (NMAM) was another landmark for moving towards accrual system of accounting by the Local Self Government in India. While sincere efforts are being made by the local bodies to switch

over to the accrual basis of accounting particularly after issuance of the NMAM, a need was felt to speed up the accounting reforms process in the country by issuing high quality Financial Reporting Standards.

The Institute of Chartered Accountants of India (ICAI), as a partner in nation building, constituted a Committee in March 2005 on Accounting Standards for Local Bodies (CASLB). The main objective of the committee was to harmonise the diverse accounting practices and formulate Accounting Standards for Local Bodies (ASLB) on accrual basis. Since its inception, the Committee has issued preface to the Accounting Standards for Local Bodies and ten accrual based ASLBs. These are based on the principles set out in the International Public Sector Accounting Standards (IPSASs), after making suitable modifications for Indian conditions. For example, the concept of fair valuation is not being introduced at this stage as it would be too complex to the local bodies that are just being introduced to the initial stage of accrual accounting. These ASLBs set out criteria for recognition, measurement, presentation and disclosure requirements of transactions and events. By following such standards, the most relevant information gets reported and disclosed in a transparent and meaningful way and thus facilitate the funding partners and other stakeholders to examine the financial health of such local bodies.

Differences between an ASLB with the corresponding existing Accounting Standards (AS) applicable to business entities and the corresponding IPSAS have also been given in appendix to the relevant Standard for the benefit of the users.

The ASLBs are also in conformity with the existing NMAM that are being followed by the Local Bodies. Both ASLBs and the National Municipal Accounting Manual (NMAM) are complementary to each other and have their own role and significance in achieving sound financial reporting system in Local Bodies. The NMAM provides guidance to ULBs in preparation of their accounts on accrual basis, which prescribes the detailed procedures to followed for recording a transaction or event, such as, scrutiny of bills, recording in book, posting to ledger, making trail balance, etc. The Manual prescribes principles for recording the transactions in brief but in ASLBs detailed recognition, measurement principles, presentation and disclosures to be followed in various situations are prescribed. Together, these guidelines works towards:

- Methods and measures to improve revenue collection

- Enable reduction of costs
- Enhance efficiency of operations
- Monitor and Manage its assets and liabilities better
- Facilitate raising of funds at a reasonable cost
- To provide services to the people at large at affordable and reasonable prices
- With all this, bringing in greater accountability for the entities

Since many local bodies are still preparing their financial statements under cash basis of accounting and are yet to adopt accrual basis, it is pertinent to have some guidance in place for them. The aim is to improve preparation and presentation of financial statements under cash basis of accounting and also facilitate transitioning to accrual basis of accounting. Therefore, one cash based ASLB on '*Financial Reporting under Cash Basis of Accounting*' has also been issued which will facilitate transitioning to accrual basis of accounting.

For the first time, ICAI has brought out a Compendium that contains all above pronouncements of the CASLB at one place for ease of use of various stakeholders. ASLBs issued by the Council of the ICAI, are recommendatory in nature in the initial years for use by the local bodies and will be mandatory for local bodies in a State from the date specified in this regard by the State Government concerned.

I gratefully acknowledge the efforts of all experts involved in the formulation of Accounting Standards for Local Bodies at relevant times. I am also grateful to various regulators, municipalities and other bodies and our members in supporting the technical activities of the Institute and in providing invaluable inputs/suggestions in the process of formulation of Accounting Standards for Local Bodies. I believe that this Compendium would be very useful to all concerned.

New Delhi
June 25, 2015

CA. S. Santhanakrishnan
Chairman
Committee on Accounting Standards for Local Bodies

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Announcement of the Council of the ICAI regarding renumbering of ASLBs issued prior to July 2011[1]

The Committee on Accounting Standards for Local Bodies (CASLB), since its inception, has issued the following seven Accounting Standards for Local Bodies (ASLBs):

1. ASLB 1, *'Presentation of Financial Statements'*
2. ASLB 3, *'Revenue from Exchange Transactions'*
3. ASLB 4, *'Borrowing Costs'*
4. ASLB 5, *'Property, Plant & Equipment'*
5. ASLB 6, *'Events after the Reporting Date'*
6. ASLB 11, '*Construction Contracts'*
7. ASLB 12, *'Inventories'*

The Standards mentioned at sl. no. 2, 3, 4 and 5 above have been numbered based on the sequence of issuing the Standards as per the decision taken by the CASLB earlier. Subsequently, the Council of the ICAI has taken a decision that the endeavour of the CASLB is to formulate the ASLBs on the basis of International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board (IPSASB) of IFAC. Therefore, in order to maintain consistency with the IPSASs, the number corresponding to that of IPSAS should be given to a relevant ASLB. Accordingly, the following ASLBs are renumbered as follows:

[1] This announcement was issued during the year 2011. Changes arising out of this announcement have been given effect in this Compendium.

Old number	**New Number**
ASLB 4, '*Borrowing Costs*'	ASLB 5
ASLB 3, '*Revenue from Exchange Transactions*'	ASLB 9
ASLB 5, '*Property, Plant & Equipment*'	ASLB 17
ASLB 6, '*Events after the Reporting Date*'	ASLB 14

ASLB 1, ASLB 11 and ASLB 12 have already been numbered according to the new numbering policy adopted.

Preface to the Accounting Standards for Local Bodies

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Preface to Accounting Standard for Local Bodies

The following is the text of the Preface to the Accounting Standards for Local Bodies, issued by the Council of the Institute of Chartered Accountants of India.

1. Introduction

1.1 This Preface to the Accounting Standards for Local Bodies (hereinafter referred to as 'Accounting Standards') sets out the objectives and operating procedures of the Committee on Accounting Standards for Local Bodies (CASLB) and explains the scope and authority of the Accounting Standards. The Preface should be used as a reference for interpreting invitations to comment, discussion documents, exposure drafts and standards formulated by the CASLB.

1.2 The 73rd and 74th Constitutional Amendment Acts envisage a key role for the Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) in respect of various functions such as education, health, rural housing and drinking water. The State Governments are required to devolve powers and responsibilities upon the PRIs and the ULBs with respect to preparation of plans for economic development and social justice, and for the implementation of development schemes as may be required to enable them to function as institutions of self-government. Due to such devolution of powers and responsibilities, the role of the ULBs varies across various States. Under the Urban Reforms Incentive Fund (URIF) which was launched a few years back, 28 States/Union Territories agreed to adopt the double entry system of accounting. Further, through the National Urban Renewal Mission, the Government requires Local Self Governments to adopt modern, accrual-based double entry system of accounting. The Government had also proposed Second Generation Reforms under Urban Reforms Incentive Fund (URIF-II) to further encourage adoption of accrual-based double entry system of accounting amongst Local Self Governments.

1.3 The term 'Local Body' may be defined as a local self-government at the third tier of governance in an administrative and geographical vicinity, e.g., a municipal corporation, a municipality or a panchayat. In many cases, the Local Bodies delegate their functions such as building of schools, city roads, parks, running transport services, providing water supply etc., to some other bodies

that may or may not be controlled by the Local Bodies, e.g. development authorities, boards, parastatals. Such bodies may be constituted, in partnership with private sector or otherwise, directly or indirectly by or on behalf of a Local Body to promote or carry out some specific objective(s) or function(s) of the Local Bodies. Such bodies may be constituted under a statute. The term 'Local Body' would also encompass such bodies.

1.4 Of late, many Local Bodies in the country are shifting to accrual basis of accounting, particularly, after the issuance of the National Municipal Accounts Manual (NMAM) by the Ministry of Urban Development, Government of India, supported by the Comptroller & Auditor General of India, National Institute of Urban Affairs and Indo- USAID FIRE-D Project and the inputs provided by the Institute of Chartered Accountants of India. The NMAM provides guidance to ULBs in preparation of their accounts on accrual basis. Another reason for ULBs adopting accrual basis is that these bodies are also approaching capital markets for raising funds. However, these bodies are following diverse accounting policies and practices in preparation of their financial statements. Hence, a need is felt for formulation of a single set of high quality financial reporting standards for Local Bodies which will set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements of Local Bodies. As a first step in this direction, Accounting Standards Board of the ICAI constituted a Sub-Committee for issuing Accounting Standards for government including urban local bodies in 1999, which issued a *Technical Guide on Accounting and Financial Reporting by Urban Local Bodies.* The Guide contains recommendations relating to application of Accounting Standards issued by the Institute of Chartered Accountants of India, to ULBs. Insofar as PRIs are concerned, a robust accounting system is also a need of the hour. Recognising the need to harmonise and improve accounting and financial reporting among Local Bodies, the Institute of Chartered Accountants of India (ICAI), constituted a full-fledged Committee on Accounting Standards for Local Bodies (CASLB) in March 2005.

1.5 The main function of the CASLB is, therefore, to formulate a single set of Accounting Standards applicable to Local Bodies.

1.6 The composition of the CASLB is fairly broad-based and ensures participation of all stakeholders in the standard-setting process. The following stakeholders, including members of the Council of the ICAI, are represented on the CASLB:

(i) Representative of the Ministry of Urban Development

(ii) Representative of the Comptroller and Auditor General of India

(iii) Representative of the Controller General of Accounts

(iv) Representative of the National Institute of Urban Affairs

(v) Representative of the Ministry of Panchayati Raj

(vi) Four representatives of Directorates of Local Bodies from various States by rotation

(vii) Two representatives of Directorates of Local Fund Audit Department from various States by rotation

(viii) Two representatives of Academic Institutions

(ix) Eminent professionals co-opted by the ICAI (they may be in practice or in industry, government, education, etc.)

(x) Representative(s) of any other body, as considered appropriate by the ICAI.

2. Objectives and Functions of the Committee on Accounting Standards for Local Bodies

2.1 The following are the objectives and functions of the CASLB:

(i) To conceive of and suggest areas in which Accounting Standards for Local Bodies need to be developed.

(ii) To formulate Accounting Standards for Local Bodies.

(iii) To examine how far International Public Sector Accounting Standards (IPSASs) prepared by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) can be integrated into national

Accounting Standards for Local Bodies envisaged in paragraph (ii) above and to integrate the same to the extent possible with a view to facilitate global harmonisation.

(iv) To review, at regular intervals, the Accounting Standards for Local Bodies from the point of view of acceptance or changed conditions, and, if necessary, revise the same.

(v) To provide, from time to time, interpretations and guidance on Accounting Standards for Local Bodies.

(vi) To respond to issues arising from implementation of Accounting Standards for Local Bodies.

(vii) To take adequate steps for propagation and dissemination of the requirements contained in the Accounting Standards for Local Bodies, including appropriately addressing the training issues, with a view to ensure effective implementation of the Standards.

(viii) To take steps in facilitating improvement in accounting methodology and systems of Local Bodies, keeping abreast of the state of development of accounting systems in Local Bodies and to act as a forum to receive feedback from Local Bodies regarding problems faced by them in the adoption of accrual accounting and in application of the Accounting Standards.

(ix) To create awareness amongst various stakeholders such as end users and citizens about the benefits of the accounting reform process in Government and Local Bodies.

(x) To carry out such other work relating to Accounting Standards and other aspects of accounting and financial reporting by Local Bodies as may be entrusted to it by the Council.

(xi) To formulate comments on the drafts of Accounting Standards for governmental bodies issued by various authorities including International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC).

(xii) To perform such other functions as may be assigned by the Council such as, to provide support to Government(s) and regulators, e.g., the Technical Committee on Budget and Accounting Standards for ULBs constituted under the aegis of Ministry of Urban Development, in their endeavours towards various other aspects of financial reporting including preparation of asset registers, performance measurement, budgeting, costing, internal control and audit.

2.2 The main function of the CASLB is to formulate Accounting Standards for Local Bodies so that such standards may be established by the ICAI in India. While formulating the Accounting Standards, the CASLB will take into consideration the applicable laws, customs, usages and the economic environment prevailing in India.

2.3 The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is expected, *inter alia*, to use its best endeavors to incorporate the requirements of International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board of IFAC into the national accounting requirements. Accordingly, while formulating the Accounting Standards, the CASLB will give due consideration to IPSASs, and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India.

2.4 The Accounting Standards for Local Bodies are issued under the authority of the Council of the ICAI. The CASLB has also been entrusted with the responsibility of propagating the Accounting Standards and of persuading the concerned authorities to adopt them in the preparation and presentation of financial statements. The CASLB will provide interpretations and guidance on issues arising from Accounting Standards. The CASLB will also review the Accounting Standards at periodical intervals and, if necessary, revise the same.

3. General Purpose Financial Statements of Local Bodies

3.1 For discharging its functions, the CASLB will keep in view the purposes and limitations of financial statements of local bodies and the attest function of the auditors. The CASLB will enumerate and describe the basic concepts to which accounting principles should be oriented and state the accounting principles to which the practices and procedures should conform.

3.2 The CASLB will clarify the terms commonly used in financial statements and suggest improvements in the terminology wherever necessary. The CASLB will examine the various current alternative practices in vogue and endeavour to eliminate or reduce alternatives within the bounds of rationality.

3.3 The term 'General Purpose Financial Statements' of Local Bodies includes balance sheet, income and expenditure account, a cash flow statement and other statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public. The State Governments may also require certain additional information by virtue of powers given to the legislatures of States in 73rd and 74th Constitutional Amendment Acts. If such information is required by a State Government, it would form part of the financial statements. References to financial statements in this Preface and in the standards issued from time to time will be construed to refer to general purpose financial statements. Accounting Standards for Local Bodies, therefore, are designed to apply to the general purpose financial statements and other financial reporting by Local Bodies.

3.4 Responsibility for the preparation of financial statements and for adequate disclosure is that of the management of the Local Bodies.

4. Scope of Accounting Standards for Local Bodies

4.1 The CASLB is developing a set of standards which will be based on the accrual basis of accounting. Efforts will be made to issue Accounting Standards for Local Bodies after giving due consideration to the provisions of the applicable customs, laws, usages and economic environment in India. Accounting Standards formulated by the CASLB do not override the statute/law that govern the issue of general purpose financial statements of a particular Local Body. Accounting Standards (ASs) already issued by the Institute of Chartered Accountants of India apply to those enterprises as stated in paragraph 3.3 of the 'Preface to the Statements of Accounting Standards'. These Accounting Standards are not designed to apply to Local Bodies. However, since these Accounting Standards lay down wholesome principles of accounting, Local Bodies may follow these Standards during the transitional period, until the Accounting Standards for Local Bodies (ASLBs) are issued by this Committee. Thus, once an ASLB is issued, the Local Bodies should follow the ASLB and not the corresponding Accounting Standard issued by the ICAI.

4.2 The Accounting Standards for Local Bodies are intended to apply only to items which are material. Any limitations with regard to the applicability of a specific Accounting Standard will be made clear by the ICAI from time to time.

4.3 The CASLB believes that the adoption of the Accounting Standards for Local Bodies, together with disclosure of compliance with them will lead to a significant improvement in the quality of general purpose financial reporting by Local Bodies. This, in turn, is likely to lead to better informed assessments of the resource allocation decisions, thereby increasing transparency and accountability.

4.4 In the formulation of Accounting Standards for Local Bodies, the emphasis would be on laying down accounting principles and not detailed rules for application and implementation thereof.

4.5 The Standards formulated by the CASLB include paragraphs in bold italic type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this Preface.

4.6 The CASLB may consider any issue requiring interpretation on any Accounting Standard for Local Bodies. Interpretations will be issued under the authority of the Council. The authority of Interpretations is the same as that of the Accounting Standard to which it relates.

5. Moving from the Cash Basis to the Accrual Basis

5.1 A Local Body in the process of moving from cash basis of accounting to accrual basis of accounting may wish to include particular accrual-based disclosures during this process. Such accrual-based disclosures may or may not be audited. The location of such additional information (for example, in the notes to the financial statements or in a separate supplementary section of the financial statements) will depend on the characteristics of the information (for example, reliability and completeness).

5.2 The CASLB also attempts to facilitate compliance with the Accounting Standards for Local Bodies (ASLBs) through the use of transitional provisions in certain Standards. Where transitional provisions exist, they may allow a Local Body additional time to meet the full requirements of a specific Accounting Standard or provide relief from certain requirements when initially applying an

Accounting Standard. A Local Body may at any time elect to adopt the accrual basis of accounting in accordance with the Accounting Standards. At this point, the Local Body should apply all the Accounting Standards including the transitional provisions in an individual Accounting Standard.

5.3 Having decided to adopt accrual accounting in accordance with the Accounting Standards, the transitional provisions would govern the length of time available to make the transition. On the expiry of the transitional provisions, the Local Body should report in full in accordance with all the Accounting Standards.

6. Procedure for Issuing an Accounting Standard for Local Bodies

Broadly, the following procedure is adopted for formulating Accounting Standards for Local Bodies:

6.1 Determine the broad areas in which Accounting Standards need to be formulated and the priority in regard to the selection thereof.

6.2 For the preparation of the Accounting Standards, the CASLB will be assisted by Study Groups constituted to consider specific subjects. In the formation of Study Groups, provision will be made for wide participation by various interest groups.

6.3 The draft of the proposed standard will normally include the following:

(a) Objective of the Standard,

(b) Scope of the Standard,

(c) Definitions of the terms used in the Standard,

(d) Recognition and measurement principles, wherever applicable,

(e) Presentation and disclosure requirements,

(f) Deviations, if any, from the corresponding International Public Sector Accounting Standard (IPSAS), as an Appendix to the Standard.

6.4 The CASLB will consider the preliminary draft prepared by the Study Group and if any revision of the draft is required on the basis of deliberations, the CASLB will make the same or refer the same to the Study Group.

6.5 The procedure for issuance of an Interpretation on any Accounting Standard for Local Bodies will be the same as that for issuance of an Accounting Standard since the authority of an Interpretation is the same as that of Accounting Standard for Local Bodies to which it relates.

6.6 The CASLB will circulate the draft of the Accounting Standard/Accounting Standards Interpretation for Local Bodies to the Council members of the ICAI and the following specified bodies for their comments:

(i) Comptroller and Auditor General of India (C&AG)

(ii) Ministry of Urban Development

(iii) Controller General of Accounts

(iv) Ministry of Panchayati Raj

(v) National Institute of Urban Affairs

(vi) Directorates of Local Bodies of the State Governments

(vii) Directorates of Local Fund Audit Department of the State Governments

(viii) Major Local Bodies

(ix) National Institute of Financial Management

(x) Securities and Exchange Board of India

(xi) Any governmental Committee(s) or other similar body, e.g., the Technical Committee on Budget and Accounting Standards for ULBs constituted by the Ministry of Urban Development.

(xii) The All India Council of Mayors

(xiii) All India Institute of Local Self Government

(xiv) Donors of funds to Local Bodies such as US AID, World Bank, etc.

(xv) The Institute of Cost and Works Accountants of India

(xvi) The Institute of Company Secretaries of India

(xvii) All the Indian Institutes of Management (IIMs)

(xviii) Any other body considered relevant by the CASLB keeping in view the nature of the Accounting Standard.

6.7 The CASLB will hold a meeting with the representatives of the selected specified bodies to ascertain their views on the draft of the proposed Accounting Standard/Accounting Standards Interpretation for Local Bodies. On the basis of comments received and discussion with the representatives of specified bodies, the CASLB will finalise the Exposure Draft of the proposed Accounting Standard/ Accounting Standards Interpretation for Local Bodies.

6.8 The Exposure Draft of the proposed Standard/Interpretation will be issued for comments by the members of the Institute and the public. The Exposure Draft will be sent to the specified bodies (as listed above), and other interest groups, as appropriate.

6.9 The Exposure Draft will be sent to any governmental Committee(s) or other similar body, e.g., the Technical Committee on Budget and Accounting Standards for ULBs constituted by the Ministry of Urban Development for sending comments on the Exposure Drafts of the proposed Standard/Interpretation.

6.10 After taking into consideration the comments received, the draft of the proposed Accounting Standard/Accounting Standards Interpretation for Local Bodies will be finalised by the CASLB and submitted to the Council.

6.11 The Council of the ICAI will consider the final draft of the proposed Standard/Interpretation, and if found necessary, modify the same in consultation with the CASLB. The Accounting Standard/Accounting Standards Interpretation on the relevant subject will then be issued by the ICAI.

6.12 The ICAI will send the Accounting Standards so formulated to the governmental Committee(s) or other similar body, e.g., the Technical Committee on Budget and Accounting Standards for ULBs constituted by the Ministry of Urban Development for recommending the same for implementation by the State Governments to achieve uniformity in preparation and presentation of financial statements by complying with the requirements of the Accounting Standards for Local Bodies.

6.13 For a substantive revision of an Accounting Standard/Accounting Standards Interpretation for Local Bodies, the procedure followed for formulation of a new Accounting Standard/Accounting Standards Interpretation for Local Bodies, as detailed above, will be followed.

6.14 Subsequent to issuance of an Accounting Standard/Accounting Standards Interpretation for Local Bodies, some aspect(s) may require revision which are not substantive in nature. For this purpose, the ICAI may make limited revision to an Accounting Standard/Accounting Standards Interpretation for Local Bodies. The procedure followed for the limited revision will substantially be the same as that to be followed for formulation of an Accounting Standard/Accounting Standards Interpretation for Local Bodies, ensuring that sufficient opportunity is given to various interest groups and general public to react to the proposal for limited revision.

7. Compliance with the Accounting Standards for Local Bodies

7.1 Ensuring compliance with the Accounting Standards for Local Bodies is the responsibility of the appropriate authority which approves the financial statements of the Local Body for the purpose of issuance thereof. Having issued the Accounting Standard for Local Bodies, various State Governments may require Local Bodies to follow the Accounting Standards for Local Bodies issued by the Institute of Chartered Accountants of India. Thus, an Accounting Standard for Local Bodies becomes mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned.

7.2 Financial statements cannot be described as complying with the Accounting Standards for Local Bodies unless they comply with all the requirements of each applicable Standard.

Accounting Standard for Local Bodies (ASLB) 1

Presentation of Financial Statements

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Accounting Standard for Local Bodies (ASLB) 1

Presentation of Financial Statements

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1]).*

The Accounting Standard for Local Bodies (ASLB) 1, '*Presentation of Financial Statements*', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies.

Objective

1. The objective of this Standard is to prescribe the manner in which general purpose financial statements should be presented to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall considerations for the presentation of financial statements, guidance for their structure, and minimum requirements for the content of financial statements prepared under the accrual basis of accounting. The recognition, measurement, and disclosure of specific transactions and other events are dealt with in other Accounting Standards for Local Bodies (ASLBs).

[1] Attention is specifically drawn to paragraph 4.2 of the '*Preface to the Accounting Standards for Local Bodies*', according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the '*Preface to the Accounting Standards for Local Bodies*' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

Scope

2. This Standard should be applied to all general purpose financial statements prepared and presented under the accrual basis of accounting in accordance with Accounting Standard for Local Bodies (ASLBs).

3. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial statements include various stakeholders, Governments and their agencies and the public. General purpose financial statements include those that are presented separately or within another public document such as an annual report. This Standard does not apply to condensed financial information.

4. This Standard applies equally to all entities and whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in ASLB on *'Consolidated and Separate Financial Statements'*[3].

5. This Standard applies to the entities described as Local Bodies in the Preface to the Accounting Standards for Local Bodies[4].

6. [Refer to Appendix 1]

Definitions

7. The following terms are used in this Standard with the meanings specified:

<u>Economic entity</u> means a group of entities comprising a controlling entity and one or more controlled entities.

<u>Impracticable</u> applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

---

[3] The proposed Accounting Standard for Local Bodies on '*Consolidated and Separate Financial Statements*' is under preparation.

[4] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

***Accounting Standards for Local Bodies (ASLBs)* are Standards and interpretations thereon issued by the Institute of Chartered Accountants of India (ICAI) for Local Bodies.**

***Material* Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.**

***Notes* contain information in addition to that presented in the balance sheet (including statement of changes in equity annexed thereto), income and expenditure statement, and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.**

Terms defined in other Accounting Standards for Local Bodies are used in this Standard with the same meaning as in those other Standards.

Economic Entity

8. The term economic entity is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

9. Other terms sometimes used to refer to an economic entity include administrative entity, financial entity, consolidated entity and group.

10. An economic entity may include entities with both social policy and commercial objectives. For example, a local body XYZ (controlling entity) may control by way of majority voting power in an entity ABC (controlled entity) that provides services of health care for a nominal charge, as well as another entity PQR (controlled entity) that provides transport services on a commercial basis. The group of entities comprising local body XYZ and the controlled entities, viz., ABC and PQR, is the economic entity.

Future Economic Benefits or Service Potential

11. Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows are often described as embodying service potential. Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

12. [Refer to Appendix 1]

Materiality

13. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the local bodies and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Equity

14. Equity is the term used in this Standard to refer to the residual measure in the balance sheet (assets less liabilities). Equity may be positive or negative.

Purpose of Financial Statements

15. Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources.

16. [Refer to Appendix 1]

17. To meet its objectives, the financial statements provide information about an entity's:

(a) Assets;

(b) Liabilities;

(c) Equity;

(d) Revenue;

(e) Expenses;

(f) Other changes in equity; and

(g) Cash flows.

18. Although the information contained in financial statements can be relevant for the purpose of meeting the objectives mentioned in paragraph 15, it is unlikely to enable all the objectives to be met. This is likely to be particularly so in respect of entities whose primary objective may not be to make a profit, as managers are likely to be accountable for the achievement of service delivery as well as financial objectives. Supplementary information, including non-financial statements, may be reported alongside the financial statements in order to provide a more comprehensive picture of the entity's activities during the period.

Responsibility for Financial Statements

19. The responsibility for the preparation, presentation and authorisation of financial statements for issue varies within and across local bodies as may be prescribed by the state laws.

20. [Refer to Appendix 1]

Components of Financial Statements

21. A complete set of financial statements comprises:

(a) A balance sheet (including statement of changes in equity annexed thereto);

(b) An Income and expenditure statement;

(c) A cash flow statement; and

(d) Notes, comprising a summary of significant accounting policies and other explanatory notes.

22. When the entity makes publicly available its approved budget, a comparison of budget and actual amounts may be given as a separate additional financial statement.

23. The financial statements provide users with information about an entity's resources and obligations at the reporting date and the flow of resources between reporting dates. This information is useful for users making assessments of an entity's ability to continue to provide goods and services at a given level, and the level of resources that may need to be provided to the entity in the future so that it can continue to meet its service delivery obligations.

24. Local bodies are subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which may be given effect through authorising legislation. General purpose financial reporting by local bodies may provide information on whether resources were obtained and used in accordance with the legally adopted budget. Reporting against budget(s) for these entities may be presented in various different ways, including:

(a) The use of a columnar format with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented, for completeness; and

(b) Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item.

25. Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as

well as making and evaluating decisions about the allocation of resources. This additional information may include details about the entity's outputs and outcomes in the form of performance indicators, statements of service performance, program reviews and other reports by management about the entity's achievements over the reporting period.

26. Entities are also encouraged to disclose information about compliance with legislative, regulatory or other externally-imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes and may affect a user's assessment of the entity's performance and direction of future operations. It may also influence decisions about resources to be allocated to the entity in the future.

Overall Considerations

Presentation of true and fair view and compliance with ASLBs

27. Financial statements should present true and fair view of the financial position, financial performance and cash flows of an entity. True and fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in ASLBs or the Conceptual Framework for General Purpose Financial Reporting by Local Bodies[5]. The application of ASLBs, with additional disclosures when necessary, is presumed to result in financial statements that achieve presentation of true and fair view.

28. An entity whose financial statements comply with ASLBs should make an explicit and unreserved statement of such compliance in the notes. Financial statements should not be described as complying with ASLBs unless they comply with all the requirements of ASLBs.

[5] '*The Conceptual Framework for General Purpose Financial Reporting by Local Bodies*' is under formulation.

29. In virtually all circumstances, a true and fair presentation is achieved by compliance with applicable ASLBs. Presentation of true and fair view also requires an entity:

(a) To select and apply accounting policies in accordance with the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*' which sets out a hierarchy of authoritative guidance that management considers in the absence of a Standard that specifically applies to an item.

(b) To present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

(c) To provide additional disclosures when compliance with the specific requirements in ASLB is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

30. Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.

31. In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this ASLB, the entity should depart from that requirement in the manner set out in paragraph 32 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.

32. When an entity departs from a requirement of a Standard in accordance with paragraph 31, it should disclose:

(a) That management has concluded that the financial statements present true and fair view of the entity's financial position, financial performance and cash flows;

(b) ***That it has complied with applicable ASLBs, except that it has departed from a particular requirement to achieve presentation of true and fair view;***

(c) ***The title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this Standard, and the treatment adopted; and***

(d) ***For each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.***

33. When an entity has departed from a requirement of a Standard in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it should make the disclosures set out in paragraph 32 (c) and (d).

34. Paragraph 33 applies, for example, when an entity departed in a prior period from a requirement in a Standard for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.

35. In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, but the relevant regulatory framework prohibits departure from the requirement, the entity should, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

(a) ***The title of the Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in this Standard; and***

(b) For each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve presentation of true and fair view.

36. For the purpose of paragraphs 31-35, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether complying with a specific requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this Standard, management considers:

(a) Why the objective of financial statements is not achieved in the particular circumstances; and

(b) How the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of the financial statements set out in this Standard.

37. Departures from the requirements of an ASLB in order to comply with statutory/legislative financial reporting requirements in a particular state law do not constitute departures that conflict with the objective of financial statements set out in this ASLB as outlined in paragraph 31. If such departures are material an entity cannot claim to be complying with ASLBs.

Going Concern

38. When preparing financial statements, an assessment of an entity's ability to continue as a going concern should be made. This assessment should be made by those responsible for the preparation of financial statements. Financial statements should be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial statements are aware, in

making their assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties should be disclosed. When financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

39. Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial statements.

40. The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

(a) In assessing whether a local body is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though they may operate for extended periods with negative equity; and

(b) For an individual entity, an assessment of its balance sheet at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the entity.

41. The determination of whether the going concern assumption is appropriate is primarily relevant for individual local bodies. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of financial statements may need to consider a wide range of factors relating to (a) current and expected performance, (b) potential and

announced restructurings of organisational units, (c) estimates of revenue or the likelihood of continued government funding, and (d) potential sources of replacement financing before it is appropriate to conclude that the going concern assumption is appropriate.

Consistency of Presentation

42. The presentation and classification of items in the financial statements should be retained from one period to the next unless:

> ***(a) It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in ASLB 3, 'Accounting Policies, Changes in Accounting Estimates and Errors'; or***
>
> ***(b) An ASLB requires a change in presentation.***

43. A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently.

44. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements, and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraph 55 and 56.

Materiality and Aggregation

45. Each material class of similar items should be presented separately in the financial statements. Items of a dissimilar nature or function should be presented separately, unless they are immaterial.

46. Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their

nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the Balance Sheet (including statement of changes in equity annexed thereto), Income and Expenditure statement and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.

47. Applying the concept of materiality means that a specific disclosure requirement in an ASLB need not be satisfied if the information is not material.

Offsetting

48. Assets and liabilities, and revenue and expenses, should not be offset unless required or permitted by an ASLB.

49. It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in either income and expenditure statement or the balance sheet, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both (a) to understand the transactions, other events and conditions that have occurred, and (b) to assess the entity's future cash flows. Measuring assets net of valuation allowances for example, obsolescence allowances on inventories and doubtful debts allowances on receivables is not offsetting.

50. ASLB 9, *'Revenue from Exchange Transactions'* defines revenue and requires it to be measured at the fair value of consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any revenue with related expenses arising on the same transaction. For example:

(a) Gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from

the proceeds on disposal the carrying amount of the asset and related selling expenses; and

(b) Expenses related to a provision that is recognised in accordance with ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets'* and reimbursed under a contractual arrangement with a third party may be netted against the related reimbursement.

51. In addition, gains and losses arising from a group of similar transactions are reported on a net basis. Such gains and losses are, however, reported separately if they are material.

52. The offsetting of cash flows is dealt with in ASLB on *'Cash Flow Statements'*[6].

Comparative Information

53. Except when an ASLB permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information should be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

54. In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last reporting date, and about the steps that have been taken during the period to resolve the uncertainty.

55. When the presentation or classification of items in the financial statements is amended, comparative amounts should be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity should disclose:

[6] The proposed Accounting Standard for Local Bodies on '*Cash Flow Statements*' is under preparation.

(a) The nature of the reclassification;

(b) The amount of each item or class of items that is reclassified; and

(c) The reason for the reclassification.

56. When it is impracticable to reclassify comparative amounts, an entity should disclose:

(a) The reason for not reclassifying the amounts; and

(b) The nature of the adjustments that would have been made if the amounts had been reclassified.

57. Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.

58. [Refer to Appendix 1]

Structure and Content

Introduction

59. This Standard requires particular disclosures on the face of the balance sheet (including statement of changes in equity annexed thereto), income and expenditure statement and requires disclosure of other line items either on the face of those statements or in the notes. ASLB on '*Cash Flow Statements*' sets out requirements for the presentation of a cash flow statement.

60. This Standard sometimes uses the term disclosure in a broad sense, encompassing items presented on the face of the (a) balance sheet (including statement of changes in equity annexed thereto), (b) income and expenditure statement, and (c) cash flow statement, as well as in the notes. Disclosures

are also required by other ASLBs. Unless specified to the contrary elsewhere in this Standard, or in another ASLB, such disclosures are made either on the face of the balance sheet, income and expenditure statement, cash flow statement (whichever is relevant), or in the notes.

Identification of the Financial Statements

61. The financial statements should be identified clearly, and distinguished from other information in the same published document.

62. ASLBs apply only to financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using ASLBs from other information that may be useful to users but is not the subject of those requirements.

63. Each component of the financial statements should be identified clearly. In addition, the following information should be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

- ***(a) The name of the reporting entity or other means of identification, and any change in that information from the preceding reporting date;***
- ***(b) Whether the financial statements cover the individual entity or the economic entity;***
- ***(c) The reporting date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;***
- ***(d) The presentation currency, as defined in ASLB on, 'The Effects of Changes in Foreign Exchange Rates'[7]; and***
- ***(e) The level of rounding used in presenting amounts in the financial statements.***

[7] The proposed Accounting Standard for Local Bodies on, '*The Effects of Changes in Foreign Exchange Rates'* is under preparation.

64. The requirements in paragraph 63 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are presented electronically, separate pages are not always used; the above items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements.

65. Financial statements are often made more understandable by presenting information in thousands or higher denomination of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

Reporting Period

66. Financial statements should be presented at least annually. When an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity should disclose, in addition to the period covered by the financial statements:

(a) The reason for using a longer or shorter period; and

(b) The fact that comparative amounts for certain statements such as the income and expenditure statement, statement of changes in equity annexed to the balance sheet, cash flow statement and related notes are not entirely comparable.

67. In exceptional circumstances an entity may be required to, or decide to, change its reporting date, for example in order to align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that users are aware that the amounts shown for the current period and comparative amounts are not comparable and that the reason for the change in reporting date is disclosed. A further example is where, in making the transition from cash to accrual accounting, an entity changes the reporting date for entities within the economic entity to enable the preparation of consolidated financial statements.

68. [Refer to Appendix 1]

69. [Refer to Appendix 1]

Balance Sheet

Current/Non-current Distinction

70. An entity should present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet in accordance with paragraphs 76-87, except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities should be presented broadly in order of liquidity.

71. Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the reporting date, and (b) more than twelve months after the reporting date, an entity should disclose the amount expected to be recovered or settled after more than twelve months.

72. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.

73. [Refer to Appendix 1]

74. In applying paragraph 70, an entity is permitted to present some of its assets and liabilities using a current/non-current classification, and others in order of liquidity, when this provides information that is reliable and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.

75. Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current or non-current.

Current Assets

76. An asset should be classified as current when it satisfies any of the following criteria:

(a) It is expected to be realised in, or is held for sale or consumption in, the entity's normal operating cycle;

(b) It is held primarily for the purpose of being traded;

(c) It is expected to be realised within twelve months after the reporting date; or

(d) It is cash or a cash equivalent (as defined in proposed ASLB on 'Cash Flow Statements' unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date).

All other assets should be classified as non-current.

77. This Standard uses the term non-current assets to include tangible, intangible and long-term Investments. It does not prohibit the use of alternative descriptions as long as the meaning is clear.

78. The operating cycle of an entity is the time taken to convert inputs or resources into outputs or their realisation in cash or cash equivalents. For instance, entities provide resources to departments so that they can convert those resources into goods and services, or outputs, to meet the entity's desired social, political and economic outcomes. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

79. Current assets include assets (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued

investment revenue) that are either realised, consumed or sold, as part of the normal operating cycle even when they are not expected to be realised within twelve months after the reporting date. Current assets also include assets held primarily for the purpose of trading and the current portion of long-term investments.

Current Liabilities

80. A liability should be classified as current when it satisfies any of the following criteria:

(a) It is expected to be settled in the entity's normal operating cycle;

(b) It is held primarily for the purpose of being traded;

(c) It is due to be settled within twelve months after the reporting date; or

(d) The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

All other liabilities should be classified as non-current.

81. Some current liabilities, such as government transfers payable and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

82. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are bank overdrafts, and the current portion of non-current liabilities, dividends payable, and other non-trade payables. Liabilities that provide financing on a long-term basis (i.e.,

are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting date are non-current liabilities, subject to paragraphs 85 and 86.

83. An entity classifies its liabilities as current when they are due to be settled within twelve months after the reporting date, even if:

(a) The original term was for a period longer than twelve months; and

(b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

84. If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

85. When an entity breaches an undertaking under a long-term loan agreement on or before the reporting date, with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.

86. However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

87. In respect of loans classified as current liabilities, if the following events occur between the reporting date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with ASLB 14, *'Events after the Reporting Date'*:

(a) Refinancing on a long-term basis;

(b) Rectification of a breach of a long-term loan agreement; and

(c) The receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the reporting date.

Information to be Presented on the Face of the Balance Sheet

88. As a minimum[8], the face of the balance sheet should include line items that present the following amounts:

(a) Property, plant and equipment;

(b) Investment property;

(c) Intangible assets;

(d) Biological assets (i.e. living, plants and animals)

(e) Investments accounted for using the equity method;

(f) Other investments (excluding amounts shown under (e), (h), (i) and (j));

(g) Inventories;

(h) Recoverables from non-exchange transactions (taxes and transfers);

(i) Receivables from exchange transactions;

(j) Cash and cash equivalents;

(k) Taxes and transfers payable;

(l) Payables under exchange transactions;

(m) Provisions;

(n) liabilities (excluding amounts shown under (k), (l) and (m));

[8] Those items to be presented which are relevant to the reporting entity.

(o) Minority interest, presented within equity; and

(p) Equity/reserves and surplus attributable to owners of the controlling entity.

89. Additional line items, headings and sub-totals should be presented on the face of the balance sheet when such presentation is relevant to an understanding of the entity's financial position.

90. This Standard does not prescribe the order or format in which items are to be presented. Paragraph 88 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the balance sheet. In addition:

(a) Line items are included when the size, nature, or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and

(b) The descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

91. The judgment on whether additional items are presented separately is based on an assessment of:

(a) The nature and liquidity of assets;

(b) The function of assets within the entity; and

(c) The amounts, nature and timing of liabilities.

92. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant and equipment can be carried at cost or revalued amounts in accordance with ASLB 17, *'Property, Plant and Equipment'.*

Information to be Presented either on the Face of the Balance Sheet or in the Notes

93. An entity should disclose, either on the face of the balance sheet (including statement of changes in equity annexed thereto), or in the notes, further sub classifications of the line items presented, classified in a manner appropriate to the entity's operations.

94. The detail provided in subclassifications depends on the requirements of ASLBs and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example:

(a) Items of property, plant and equipment are disaggregated into classes in accordance with ASLB 17, *'Property, Plant and Equipment'*;

(b) Receivables are disaggregated into amounts receivable from user charges, taxes and other non-exchange revenues, prepayments and other amounts;

(c) Inventories are sub classified in accordance with ASLB 12, '*Inventories*' into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

(d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;

(e) Provisions are disaggregated into provisions for employee benefits and other items; and

(f) Components of equity are disaggregated into contributed capital, accumulated surpluses and deficits and any reserves.

95. When an entity has no share capital, it should disclose equity, either on the face of the balance sheet or in the notes, showing separately:

(a) Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;

(b) Accumulated surpluses or deficits;

(c) Reserves, including a description of the nature and purpose of each reserve within equity; and

(d) Minority interests.

96. Many entities will not have share capital but the entity will be controlled exclusively by another entity. The nature of the local body's interest in the equity of the entity is likely to be a combination of contributed capital and the aggregate of the entity's accumulated surpluses or deficits and reserves that reflect the equity attributable to the entity's operations.

97. In some cases, there may be a minority interest in the equity of the entity. For example, the local body may have a controlling interest in a Special Purpose Vehicle with a private party under the Public Private Partnership arrangement.

98. When an entity has share capital, in addition to the disclosures in paragraph 95, it should disclose the following, either on the face of the balance sheet or in statement of changes in equity annexed there to or in the notes:

(a) For each class of share capital:

(i) The number of shares authorised;

(ii) The number of shares issued and fully paid, and issued but not fully paid;

(iii) Par value per share, or that the shares have no par value;

(iv) A reconciliation of the number of shares outstanding at the beginning and at the end of the year;

(v) The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;

(vi) Shares in the entity held by the entity or by its controlled entities or associates; and

(vii) Shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and

(b) A description of the nature and purpose of each reserve within equity.

Income and Expenditure Statement

Surplus or Deficit for the Period

99. All items of revenue and expense recognised in a period should be included in the determination of surplus or deficit, unless an ASLB requires otherwise.

100. Normally, all items of revenue and expense recognised in a period are included in the determination of surplus or deficit. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period.

101. Other Standards deal with items that may meet definitions of revenue or expense set out in this ASLB but are usually excluded from the determination of surplus or deficit. Examples include revaluation surpluses (see ASLB 17, *'Property, Plant and Equipment'*).

Information to be Presented on the Face of the Income and Expenditure Statement

102. As a minimum, the face of the Income and expenditure statement should include line items that present the following amounts for the period:

(a) Revenue;

(b) Employee costs;

(c) Finance costs;

(d) Depreciation and amortisation;

(e) Other operating expenditure;

(f) Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;

(g) Minority interest share of surplus or deficit; and

(h) Surplus or deficit.

103. The following items should be disclosed on the face of the income and expenditure statement as allocations of surplus or deficit for the period:

(a) Surplus or deficit attributable to minority interest; and

(b) Surplus or deficit attributable to owners of the controlling entity.

104. Additional line items, headings and subtotals should be presented on the face of the income and expenditure statement when such presentation is relevant to an understanding of the entity's financial performance.

105. Because the effects of an entity's various activities, transactions and other events differ in terms of their impact on its ability to meet its service delivery obligations, and disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the income and expenditure statement, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance. Factors to be considered include materiality and the nature and function of the components of revenue and expenses. Revenue and expense items are not offset unless the criteria in paragraph 48 are met.

Information to be Presented either on the Face of the Income and Expenditure Statement or in the Notes

106. When items of revenue and expense are material, their nature and amount should be disclosed separately.

107. Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

(a) Write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;

(b) Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) Disposals of items of property, plant and equipment;

(d) Litigation settlements; and

(e) Other reversals of provisions.

108. An entity should present, either on the face of the income and expenditure statement or in the notes, a subclassification of total revenue, classified in a manner appropriate to the entity's operations.

109. An entity should present, either on the face of the income and expenditure statement or in the notes, an analysis of expenses using a classification based on the nature of expenses.

110. Entities are encouraged to present the analysis in paragraph 109 on the face of the income and expenditure statement.

111. Expenses are sub classified to highlight the costs and cost recoveries of particular programs, activities or other relevant segments of the reporting entity.

112. To present analysis in paragraph 109, expenses are aggregated in the income and expenditure statement according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits), and

are not reallocated among various functions within the entity. This method is simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Employee benefits costs	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Surplus		X

113. [Refer to Appendix 1]

114. [Refer to Appendix 1]

115. Entities are encouraged to provide a summary statement of nature of expense, in a matrix form to enable the users of financial statements to understand the total cost of providing various services. This information may be presented in such a manner that assets, liabilities, revenue and expense and surplus / deficit relating to each major function are readily apparent or determinable.

116. [Refer to Appendix 1]

117. When an entity provides a dividend or similar distribution to its owners and has share capital, it should disclose, either on the face of the income and expenditure statement or the statement of changes in equity annexed to the balance sheet, or in the notes, the amount of dividends or similar distributions recognised as distributions to owners during the period, and the related amount per share.

Statement of Changes in Equity

118. An entity should present a statement of changes in equity as required by paragraph 21. Following information should be shown on the face of the statement:

(a) Surplus or deficit for the period; and

(b) Each item of revenue and expense for the period that, as required by other Standards, is recognised directly in equity, and the total of these items.

118A. The entity may also present the total revenue and expense for the period (calculated as the sum of 118 (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to minority interest.

119. An entity should also present, either on the face of the statement of changes in equity or in the notes:

(a) The amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;

(b) The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and

(c) To the extent that components of equity are separately disclosed, a reconciliation between the carrying amount of each component of equity at the beginning and the end of the period, separately disclosing each change.

120. Changes in an entity's equity between two reporting dates reflect the increase or decrease in its net assets during the period.

121. The overall change in equity during a period represents the total amount of surplus or deficit for the period, other revenues and expenses recognised directly as changes in equity, together with any contributions by, and distributions to, owners in their capacity as owners.

122. Contributions by, and distributions to, owners include transfers between two entities within an economic entity (for example, a transfer from a local body, acting in its capacity as owner, to a special purpose vehicle). Contributions by owners, in their capacity as owners, to controlled entities are recognised as

a direct adjustment to equity only where they explicitly give rise to residual interests in the entity in the form of rights to equity.

123. This Standard requires all items of revenue and expense recognised in a period to be included in surplus or deficit, unless another ASLB requires otherwise. Other Standards require some items (such as revaluation increases) to be recognised directly as changes in equity. Because it is important to consider all items of revenue and expense in assessing changes in an entity's financial position between two reporting dates, this Standard requires the presentation of a statement of changes in equity that highlights an entity's total revenue and expenses, including those that are recognised directly in equity.

124. [Refer to Appendix 1]

125. The requirements in paragraphs 118, 118A and 119 may be met by using a columnar format that reconciles the opening and closing balances of each element within equity. An alternative is to present only the items set out in paragraph 118 and 118A in the statement of changes in equity. Under this approach, the items described in paragraph 119 are shown in the notes.

Cash Flow Statement

126. Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. ASLB on '*Cash Flow Statements*' sets out requirements for the presentation of the cash flow statement and related disclosures.

Notes

Structure

127. The notes should:

- ***(a) Present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 132-139;***

(b) Disclose the information required by ASLB that is not presented on the face of the balance sheet or statement of changes in equity annexed to the balance sheet, income and expenditure statement, or cash flow statement; and

(c) Provide additional information that is not presented on the face of the balance sheet, in the statement of changes in equity annexed to the balance sheet, income and expenditure statement, or cash flow statement, but that is relevant to an understanding of any of them.

128. Notes should, as far as practicable, be presented in a systematic manner. Each item on the face of the balance sheet in the statement of changes in equity annexed to the balance sheet, income and expenditure statement, and cash flow statement should be cross-referenced to any related information in the notes.

129. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

(a) A statement of compliance with ASLBs (see paragraph 28);

(b) A summary of significant accounting policies applied (see paragraph 132);

(c) Supporting information for items presented on the face of the balance sheet in the statement of changes in equity annexed to the balance sheet, income and expenditure statement, or cash flow statement, in the order in which each statement and each line item is presented; and

(d) Other disclosures, including Contingent liabilities (see ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets'*), and unrecognised contractual commitments.

130. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes.

131. Notes providing information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

Disclosure of Accounting Policies

132. An entity should disclose in the summary of significant accounting policies:

- ***(a) The measurement basis (or bases) used in preparing the financial statements;***
- ***(b) The extent to which the entity has applied any transitional provisions in any ASLBs; and***
- ***(c) The other accounting policies used that are relevant to an understanding of the financial statements.***

133. It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value, recoverable amount or recoverable service amount) because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.

134. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in ASLBs.

135. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, local bodies would be expected to disclose an accounting policy for recognition of taxes, donations and other forms of non-

exchange revenue. When an entity has significant transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When entity combinations have occurred, the policies used for measuring minority interest are disclosed.

136. An accounting policy may be significant because of the nature of the entity's operation, even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by ASLB, but is selected and applied in accordance with ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

137. An entity should disclose, in the summary of significant accounting policies or other notes, the judgments, apart from those involving estimations (see paragraph 140), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

137A. Some of the examples of accounting policies followed in preparation of financial statements are:

a. The measurement base applied is historical cost adjusted for revaluations of assets.

b. The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

138. In the process of applying the entity's accounting policies, management makes various judgments, apart from those involving estimations, that can significantly affect the amounts recognised in the financial statements.

139. [Refer to Appendix 1]

Key Sources of Estimation Uncertainty

140. An entity should disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation

uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes should include details of:

(a) Their nature; and

(b) Their carrying amount as at the reporting date.

141. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the reporting date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure (a) the recoverable amount of certain classes of property, plant and equipment, (b) the effect of technological obsolescence on inventories, (c) provisions subject to the future outcome of litigation in progress.

142. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 140 relate to the estimates that require management's most difficult, subjective or complex judgments. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgments become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

143. The disclosures in paragraph 140 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the reporting date, they are measured at fair value based on recently observed market prices (their fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the reporting date).

144. The disclosures in paragraph 140 are presented in a manner that helps users of financial statements to understand the judgments management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of

the assumption and other circumstances. Examples of the types of disclosures made are:

(a) The nature of the assumption or other estimation uncertainty;

(b) The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(c) An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

145. Local bodies should not disclose budget information or forecasts in making the disclosures in paragraph 140.

146. When it is impracticable to disclose the extent of the possible effects of a key assumption or another key source of estimation uncertainty at the reporting date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.

147. The disclosures in paragraph 137 of particular judgments management made in the process of applying the entity's accounting policies do not relate to the disclosures of key sources of estimation uncertainty in paragraph 140.

148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 140 is required by other Standards. For example, ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets'* requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. ASLB 17, *'Property, Plant & Equipment'* requires disclosure of significant assumptions applied in estimating fair values of revalued items of property, plant and equipment.

Capital

148A. An entity should disclose information that enables users of its financial statements to evaluate the entity's objectives, policies, and processes for managing capital.

148B. To comply with paragraph 148A the entity discloses the following:

(a) Qualitative information about its objectives, policies, and processes for managing capital, including (but not limited to):

   (i) A description of what it manages as capital;

   (ii) When an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and

   (iii) How it is meeting its objectives for managing capital.

(b) Summary quantitative data about what it manages as capital.

(c) Any changes in (a) and (b) from the previous period.

(d) Whether during the period it complied with any externally imposed capital requirements to which it is subject.

(e) When the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance. These disclosures should be based on the information provided internally to the entity's key management personnel.

148C. An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake different activities, and those entities may also operate in several states. When an aggregate disclosure of capital requirements and how capital is managed would provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the

entity should disclose separate information for each capital requirement to which the entity is subject.

Other Disclosures

149. [Refer to Appendix 1]

150. An entity should disclose the following, if not disclosed elsewhere in information published with the financial statements:

- ***(a) The domicile and legal form of the entity, and the jurisdiction within which it operates;***
- ***(b) A description of the nature of the entity's operations and principal activities;***
- ***(c) A reference to the relevant legislation governing the entity's operations; and***
- ***(d) The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable).***

Transitional Provisions

151. All provisions of this Standard should be applied from the date of first adoption of this Standard, except in relation to items that have not been recognised as a result of transitional provisions under another ASLB. The disclosure provisions of this Standard would not be required to apply to such items until the transitional provision in the other ASLB expires. Comparative information is not required in respect of the financial statements to which accrual accounting is first adopted in accordance with ASLBs.

152. Notwithstanding the existence of transitional provisions under another ASLB, entities that are in the process of adopting the accrual basis of accounting for financial reporting purposes are encouraged to comply in full with the provisions of that other Standard as soon as possible.

153. [Refer to Appendix 1]

154. [Refer to Appendix 1]

155. [Refer to Appendix 1]

Appendix A

Implementation Guidance – Illustrative Financial Statement Structure

This guidance accompanies, but is not part of, ASLB 1.

IG1. This Standard sets out the components of financial statements and minimum requirements for disclosure on the face of the balance sheet (including statement of changes in equity annexed thereto), and the income and expenditure statement. It also describes further items that may be presented either on the face of the relevant financial statement or in the notes. This guidance provides simple examples of the ways in which the requirements of the Standard for the presentation of the balance sheet, income and expenditure statement and changes in equity might be met. The order of presentation and the descriptions used for line items should be changed when necessary in order to achieve a true and fair presentation in each entity's particular circumstances.

IG2. The illustrative statement of balance sheet shows one way in which a balance sheet distinguishing between current and non current items may be presented. Other formats may be equally appropriate, provided the distinction is clear.

IG3. The financial statements have been prepared for a local body and the income and expenditure statement classifies expenses by nature.

IG4. The format[9] of financial statements do not comprise a complete set of financial statements, which would also include a cash flow statement, a summary of significant accounting policies and other explanatory notes.

Refer ASLB – Cash Flow Statement for format of Cash Flow Statement.

[9] The format may be suitably supplemented and substituted due to change arising from other Standards

LOCAL BODY – BALANCE SHEET AS OF 31ST MARCH ___________

(Rs. in Thousands)

Description of Items	Schedule No.	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
EQUITY AND LIABILITIES			
Equity			
(a) Corpus Fund			
(b) Retained Earnings			
(c) General Fund			
(d) Earmarked Funds			
(d) Reserves			
(e) Others			
Non-current liabilities			
(a) Long-term borrowings			
(b) Long-term provisions			
(c) Other non-current liabilities			
Current liabilities			
(a) Short Term Borrowings			
(b) Short-term provisions			
(c) Taxes and transfers payable			
(d) Payable under exchange transactions			
(d) Other current liabilities			
TOTAL			
ASSETS			
Non-current assets			
(a) Property, Plant and Equipment			
(b) Capital work-in-progress			
(c) Investment Property			

(d) Intangible Assets (i) Goodwill (ii) Other Intangible assets (iii) Intangible assets under development (e) Biological Assets (f) Long –term investments (g) Long-term loans and advances (h) Other non-current assets **Current assets** (a) Inventories (b) Current investments (c) Recoverable from non-exchange transactions (taxes and transfers) (d) Receivables from exchange transactions (e) Cash and cash equivalents (f) Short-term loans and advances (g) Other current assets			
TOTAL			

LOCAL BODY – INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31ST MARCH ___________

(Rs. in Thousands)

(Classification of Expenses by Nature)

Items/Head of Account	Schedule No.	Current Year Amount (Rs.)	Previous Year Amount (Rs.)
Revenue			
Tax Revenue			
Assigned Revenue and Compensation			
Rental Income from Municipal Properties			
Fees and User Charges			
Sale and Hire Charges			
Revenue Grants, Contribution and Subsidies			
Income from Investments			
Interest Earned			
Other Income			
Total Revenue			
Expenditure			
Employee Costs			
Finance Costs			
Depreciation and Amortisation expenses			
Other Expenses			
Total Expenditure			
Share of Surplus of associates and joint ventures			

Gross Surplus ((deficit) of Income over expenditure before exceptional items			
Exceptional items			
Gross Surplus ((deficit) of Income over expenditure after exceptional items			
Attributable to			
Owners			
Minority Interest			

LOCAL BODY – STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST MARCH ____________

(Rs. in Thousands)

	Attributable to owners of the Controlling Entity						Minority Interest	Total Equity
	Share capital / contributed capital	General Fund	Earmarked Fund	Reserves & Surplus	Other Reserves	Total		
Balances as at 31st March ___________	x	X	X	(X)	X	X	X	X
Changes in equity for ______ Revaluation Surplus					X	X	X	X
Net revenue recognised directly in equity					X	X	X	X
Surplus (Deficit) for the period				X		X	X	X
Total recognised revenues and expenses for the period	X			X	X	X	X	X
Any other change (to be specified)	X	X	X	X	X	X	X	X
Balance at the end of the period	X	X	X	(X)	X	X	X	X

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 1 and the corresponding International Accounting Standard (IPSAS) 1, 'Presentation of Financial Statements'.

Comparison with IPSAS 1, *'Presentation of Financial Statements'*

1 IPSAS 1 requires preparation of Statement of Changes in Equity as a separate statement. ASLB 1 requires the statement of changes in equity to be shown as an annexure to the balance sheet.

2 Different terminology is used in ASLB 1 e.g., the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of income and expenditure, is used instead of 'Statement of financial performane'.

3 IPSAS 1 gives the option to individual entities to follow different terminology for the titles of financial statements. ASLB 1 has been changed to remove this option by giving one terminology to be used by all the entities.

4 IPSAS 1 permits the periodicity, for example, of 52 weeks for preparation of financial statements. ASLB 1 does not permit so.

5 IPSAS 1 requires an entity to present an analysis of expenses recognised in Income and Expenditure Statement using a classification based on either their nature or their function within the entity. ASLB 1 requires only nature-wise classification of expenses.

6 Certain definitions and appendix on qualitative characteristics of financial reporting given in IPSAS 1 have been removed as these are proposed to be covered in the Conceptual Framework for General Purpose Financial Reporting by Local Bodies being developed by the Committee.

7 ASLB 1 defines "Accounting Standards for Local Bodies". IPSAS 1 does not define "International Public Sector Accounting Standards".

8 IPSAS 1 refers to the IPSASs on Financial Instruments at various places. Those references have been deleted in the ASLB 1 keeping in view that formulation of ASLBs corresponding to the IPSASs on Financial Instruments is not proposed to be taken up in near future considering that Local Bodies in India are at very early stage of adoption of accrual basis of accounting, it would be difficult for Local Bodies to implement ASLBs on Financial Instruments.

9 Paragraph 6 of IPSAS 1 which provides on definition of Government Business Enterprises and use of IFRSs by these Enterprises has been deleted as it is not relevant for ASLB 1, which is applicable to Local Bodies. However, paragraph 6 is retained in ASLB 1, in order to maintain consistency with IPSAS 1.

10 Due to above differences and others, certain paragraphs such as paragraph number 16, 20, 58, 68, 69, 73, 113, 114, 116, 124, 139 and 149 have been removed from ASLB 1, as these are not considered to be relevant for Local Bodies. However, paragraph numbers have been retained in order to maintain consistency with IPSAS 1.

11 Paragraphs relating to effective date have been removed as the ASLB 1 would become mandatory for Local Bodies in a state from the date specified by the State Government concerned. Paragraph numbers have been retained in order to maintain consistency with IPSAS 1.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies the corresponding existing Accounting Standard (AS) 1, Disclosure of Accounting Policies (issued 1979).

Major differences between ASLB 1, '*Presentation of Financial Statements'* and existing AS 1 (issued 1979)

ASLB 1 generally deals with presentation of financial statements, whereas existing AS 1 (issued1979) deals only with the disclosure of accounting policies. The scope covered by the standard is thus much wider and line by line comparison of the standard with the existing AS 1 is not possible. However, the major requirements as laid down in the standard are as follows:

- An entity should make an explicit statement in the financial statements of compliance with Accounting Standards for Local Bodies. Further, the standard allow deviation from a requirement of a standard in case the management concludes that compliance with ASLBs will be misleading and if the regulatory framework requires or does not prohibit such a departure.

- ASLB 1 requires presentation of Current / Non-Current assets and liabilities as separate classifications in the balance sheet.

- ASLB 1 requires disclosure of judgments made by management while framing of accounting polices. Also, it requires disclosure of key assumptions about the future and other key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year.

- ASLB 1 requires classification of expenses to be presented based on nature of expenses.

- In respect of reclassification of items, ASLB 1 requires disclosure of nature, amount and reason for reclassification in the notes to financial statements.

- ASLB 1 requires preparation of statement of changes in equity as annexure to the balance sheet which, inter alia, includes reconciliation between opening and closing balance for each component of equity.

Accounting Standard for Local Bodies (ASLB) 3

Accounting Policies, Changes in Accounting Estimates and Errors

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Accounting Standard for Local Bodies (ASLB) 3

Accounting Policies, Changes in Accounting Estimates and Errors

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB) 3, *'Accounting Policies, Changes in Accounting Estimates and Errors'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies.

Objective

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the (a) accounting treatment and disclosure of changes in accounting policies, (b) changes in accounting estimates, and (c) the corrections of errors. This Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

2. Disclosure requirements for accounting policies, except those for

[1] Attention is specifically drawn to paragraph 4.2 of the '*Preface to the Accounting Standards for Local Bodies*',according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the '*Preface to the Accounting Standards for Local Bodies*' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

changes in accounting policies, are set out in ASLB 1, *'Presentation of Financial Statements'*.

Scope

3. This Standard should be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates, and corrections of prior period errors.

4. [Refer to Appendix 1]

5. This Standard applies to entities described as local bodies in the Preface to the Accounting Standards for Local Bodies[3].

6. [Refer to Appendix 1]

Definitions

7. The following terms are used in this Standard with the meanings specified:

> ***Accounting policies are the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.***
>
> ***A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.***
>
> ***Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a***

[3] Refer paragraph 1.3 of the 'Preface to the Accounting Standards for Local Bodies'.

change in an accounting policy retrospectively if:

(a) The effects of the retrospective application is not determinable;

(b) The retrospective application requires assumptions about what management's intent would have been in that period; or

(c) The retrospective application requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

(i) Provide evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured, or disclosed; and

(ii) Would have been available when the financial statements for that prior period were authorised for issue from other information.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or a misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Prospective application of a change in accounting policy, and of recognising the effect of the change in the accounting estimate,

respectively, are:

(a) applying the new accounting policy to transactions, other events, and conditions occurring after the date as at which the policy is changed;

(b) recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

Retrospective application** **is applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.

Material Omissions or misstatements of items** **are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Materiality

8. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the local bodies and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Accounting Policies

Selection and Application of Accounting Policies

9. When an ASLB specifically applies to a transaction, other event

or condition, the accounting policy or policies applied to that item should be determined by applying the Standard.

10. ASLBs set out accounting policies that result in financial statements containing relevant and reliable information about the transactions, other events, and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from ASLBs to achieve a particular presentation of an entity's financial position, financial performance, or cash flows.

11. ASLBs are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of ASLBs. Guidance that is an integral part of ASLBs is mandatory. Guidance that is not an integral part of ASLBs does not contain requirements for financial statements.

12. In the absence of an ASLB that specifically applies to a transaction, other event, or condition, management should use its judgment in developing and applying an accounting policy that results in information that is:

- ***(a) Relevant to the decision-making needs of users; and***
- ***(b) Reliable, in that the financial statements:***
  - ***(i) Represent faithfully the financial position, financial performance, and cash flows of the entity;***
  - ***(ii) Reflect the economic substance of transactions, other events, and conditions and not merely the legal form;***
  - ***(iii) Are neutral, i.e., free from bias;***
  - ***(iv) Are prudent; and***
  - ***(v) Are complete in all material respects.***

13. Paragraph 12 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics.

14. In making the judgment, described in paragraph 12, management should refer to, and consider the applicability of, the following sources in descending order:

(a) The requirements in ASLBs dealing with similar and related issues; and

(b) The definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other ASLBs.

15. In making the judgment described in paragraph 12, management may also consider the following in descending order (a) the most recent pronouncements of the Institute of Chartered Accountants of India, e.g., Accounting Standards and Guidance Notes on Accounting. Such pronouncements also include 'Framework for the Preparation and Presentation of Financial Statements' (b) International Public Sector Accounting Standards issued by International Public Sector Accounting Standards Board, and (c) accepted accounting practices in Local Bodies or in private sector, but only to the extent that these do not conflict with the sources in paragraph 14.

Consistency of Accounting Policies

16. An entity should select and apply its accounting policies consistently for similar transactions, other events, and conditions, unless an ASLB specifically requires or permits categorisation of items for which different policies may be appropriate. If an ASLB requires or permits such categorisation, an appropriate accounting policy should be selected and applied consistently to each category.

Changes in Accounting Policies

17. An entity should change an accounting policy only if the change:

(a) is required by an ASLB; or

(b) results in the financial statements providing reliable and

more relevant information about the effects of transactions, other events, and conditions on the entity's financial position, financial performance, or cash flows; or

(c) if the adoption of the different accounting policy is required by a statute.

18. Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, performance, and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria in paragraph 17.

19. A change from one basis of accounting to another basis of accounting is a change in accounting policy.

20. A change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting is regarded as a change in accounting policy.

21. The following are not changes in accounting policies:

(a) The application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and

(b) The application of a new accounting policy for transactions, other events, or conditions that did not occur previously or that were immaterial.

22. The initial application of a policy to revalue assets in accordance with ASLB 17, 'Property, Plant and Equipment', is a change in accounting policy to be dealt with as a revaluation in accordance with ASLB 17, 'Property, Plant and Equipment', rather than in accordance with this Standard.

23. Paragraphs 24-36 do not apply to the change in accounting policy described in paragraph 22.

Applying Changes in Accounting Policies

24. Subject to paragraph 28:

(a) An entity should account for a change in accounting policy resulting from the initial application of an ASLB in accordance with the specific transitional provisions, if any, in that Standard; and

(b) When an entity changes an accounting policy upon initial application of an ASLB that does not include specific transitional provisions applying to that change, or change an accounting policy voluntarily, it should apply the change retrospectively.

25. For the purpose of this Standard, early application of an ASLB, where permitted, is not a voluntary change in accounting policy.

26. In the absence of an ASLB that specifically applies to a transaction, other event, or condition, management may, in accordance with paragraphs 14 and 15 apply an accounting policy from (a) the most recent pronouncements of the Institute of Chartered Accountants of India, e.g., Accounting Standards and Guidance Notes on Accounting. Such pronouncements also include '*Framework for the Preparation and Presentation of Financial Statements*' and (b) International Public Sector Accounting Standards issued by International Public Sector Accounting Standards Board and (c) accepted accounting practices in Local Bodies or in private sector, but only to the extent that these do not conflict with the sources in paragraph 14.

Retrospective Application

27. Subject to paragraph 28, when a change in accounting policy is applied retrospectively in accordance with paragraph 24 (b), deficiency or surplus arising from retrospective application is recognised in the statement of income and expenditure with corresponding adjustments, if any, in the assets/liabilities in the year in which the accounting policy is changed.

Limitations on Retrospective Application

28. When retrospective application is required by paragraph 24(a) or (b), a change in accounting policy should be applied retrospectively, except to the extent that it is impracticable to determine the period-specific effects or cumulative effect of the change.

29. When it is impracticable to determine the period-specific effects of changing an accounting policy, the entity should apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period and should make a corresponding recognition of charge or credit in the statement of income and expenditure.

30. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity should apply the new accounting policy prospectively from the earliest date practicable.

31. [Refer to Appendix 1]

32. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph 30, applies the new accounting policy prospectively from the start of earliest period practicable. It therefore disregards the portion of cumulative adjustment to assets, liabilities, and equity arising from before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 56-58 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

Disclosure

33. When initial application of an ASLB (a) has an effect on the current period or any prior period, (b) would have such an effect, except that it is impracticable to determine the amount of the adjustment, or (c) might have an effect on future periods, an entity should disclose:

(a) ***The title of the Standard;***

(b) ***When applicable, that the change in accounting policy is made in accordance with its transitional provisions;***

(c) ***The nature of the change in accounting policy; and***

(d) ***When applicable, a description of the transitional provisions;***

(e) ***When applicable, the transitional provisions that might have an effect on future periods;***

(f) ***For the current period the amount of the adjustment for each financial statement line item affected;***

(g) ***The amount of the adjustment relating to periods before those presented, to the extent practicable; and***

(h) ***If retrospective application required by paragraph 24(a) or (b) is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.***

Financial statements of subsequent periods need not repeat these disclosures.

34. When a voluntary change in accounting policy (a) has an effect on the current period or any prior period, (b) would have an effect on that period, except that it is impracticable to determine the amount of the adjustment, or (c) might have an effect on future periods, an entity should disclose:

(i) ***The nature of the change in accounting policy;***

(ii) ***The reasons why applying the new accounting policy provides reliable and more relevant information;***

(iii) ***For the current period, to the extent practicable, the amount of the adjustment for each financial statement line item affected;***

(iv) ***The amount of the adjustment relating to periods before those presented, to the extent practicable; and***

(v) ***If retrospective application is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.***

Financial statements of subsequent periods need not repeat these disclosures.

35. [Refer to Appendix 1]

36. [Refer to Appendix 1]

Changes in Accounting Estimates

37. As a result of the uncertainties inherent in delivering services, conducting trading, or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. For example, estimates may be required of:

(a) Tax revenue due to government;

(b) Bad debts arising from uncollected taxes;

(c) Inventory obsolescence;

(d) The fair value of financial assets or financial liabilities, where applicable; and

(e) The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in depreciable assets, or the percentage completion of road construction.

38. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

39. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

40. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

41. The effect of a change in an accounting estimate, other than a change to which paragraph 42 applies, should be recognised prospectively by including it in surplus or deficit in:

> ***(a) The period of the change, if the change affects the period only; or***
>
> ***(b) The period of the change and future periods, if the change affects both.***

42. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it should be recognised by adjusting the carrying amount of the related asset, liability, or equity item in the period of change.

43. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus or deficit of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's surplus or deficit, and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential embodied in, a depreciable asset affects the depreciation expense for the current period and for each future period

during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as revenue or expense in the current period. The effect, if any, on future periods is recognised in future periods.

Disclosure

44. An entity should disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.

45. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity should disclose that fact.

Errors

46. Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Financial statements do not comply with ASLB if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance, or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period.

47. An entity should correct material prior period errors in the first set of financial statements authorised for issue after their discovery by recognising the same in the determination of surplus or deficit for the current period.

48–52. [Refer to Appendix 1]

53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

Disclosure of Prior Period Errors

54. In applying paragraph 47, an entity should disclose the following:

(a) The nature of the prior period error;

(b) For the current period, to the extent practicable, the amount of the correction for each financial statement line item affected;

(c) The amount of the correction at the beginning of the current period.

Financial statements of subsequent periods need not repeat these disclosures beyond.

Impracticability in Respect of Retrospective Application

55. In some circumstances, it is impracticable to apply retrospectively a change in accounting policy. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 56-58, its prospective application to prior periods), and it may be impracticable to re-create the information.

56. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events, or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy because of the longer period of time that might have passed since the affected transaction, other event, or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event, or condition occurred.

57. Therefore, retrospectively applying a new accounting policy requires distinguishing information that:

(a) Provides evidence of circumstances that existed on the date(s) as at which the transaction, other event, or condition occurred; and

(b) Would have been available when the financial statements for that prior period were authorised for issue; from other information. For some types of estimates (e.g., an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy retrospectively.

58. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured, or disclosed in a prior period. For example, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with ASLB 25, '*Employee Benefits*'[4], it disregards information about an unusually severe influenza season during the next period that becomes available after the financial statements for the prior period were approved for issue. The fact that significant estimates are frequently required does not prevent reliable adjustment or correction of the error in the current period.

Effective Date

59. [Refer to Appendix 1]

59A. [Refer to Appendix 1]

60. [Refer to Appendix 1]

61. [Refer to Appendix 1]

[4] The Accounting Standard for Local Bodies is under formulation.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 3 and the corresponding International Accounting Standard (IPSAS) 3, 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Comparison with IPSAS 3, '*Accounting policies, changes in accounting estimates and errors*'

1. Paragraph pertaining to exclusion of the tax effects of correction of prior period errors have been deleted from the ASLB 3 as the same is not relevant for Local Bodies in India. However, paragraph number 4 has been retained in order to maintain consistency with IPSAS 3.

2. Paragraph 6 of IPSAS 3 which provides that Government Business Enterprises should use IFRSs, has been deleted, as it is not relevant for the ASLB 3, which is applicable to Local Bodies in India. However, paragraph number has been retained in ASLB 3 in order to maintain consistency with ASLB 3.

3. The concept of retrospective restatement in respect of applying an accounting policy and correcting a prior period error has been removed in the ASLB 3, as it would be difficult for the Local Bodies to apply since Local Bodies in India are at very initial stage of implementing accrual accounting. Consequential changes due to this change have also been made in the standard.

4. As per ASLB 3 any change in accounting policy is applied retrospectively and any adjustment resulting from such change is included in the statement of Income and Expenditure in the year in which the accounting policy has been changed whereas as per IPSAS 3 an entity adjust the opening balance of each affected component of net asset/equity for the earliest period presented and other comparative amounts disclosed for each prior period.

5. ASLB 3 provides for an additional condition for change in accounting policy by an entity, i.e., an entity can change its accounting policy if it is required by a statute, which is not there in IPSAS 3.

6. As per IPSAS 3, an entity should correct the error by restating the comparative amounts for prior period(s) presented in which the error occurred and if the error occurred before the earliest prior period presented, restating the opening balance of assets/equity for the earliest prior period presented whereas according to ASLB 3, an error is corrected in the current year by recognising the same in the determination of surplus or deficit for the current period. Consequential changes have been made. However, paragraph numbers have been retained in order to maintain consistency with IPSAS 3.

7. Paragraphs relating to effective date have been removed as ASLB 3 would become mandatory for Local Bodies in a state from the date specified by the State Government concerned. Paragraph numbers have been retained in order to maintain consistency with IPSAS 3.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 3 and the existing Accounting Standard (AS) 5, 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' issued by the Institute of Chartered Accountants of India.

Comparison with existing AS 5, *'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'*

1. The objective of the existing AS 5 is to prescribe the classification and disclosure of certain items in the statement of profit and loss for uniform preparation and presentation of financial statements. The objective of ASLB 3 is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

2. The existing AS 5 restricts the definition of accounting policies to specific accounting principles and the methods of applying those principles while ASLB 3 broadens the definition to include bases, conventions, rules and practices (in addition to principles) applied by an entity in the preparation and presentation of financial statements.

3. ASLB 3 specifically states that an entity should select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an ASLB specifically requires or permits categorisation of items for which different policies may be appropriate. Existing AS 5 does not specifically requires accounting policies to be consistent for similar transactions, other events and conditions.

4. Certain additional definitions such as 'change in accounting estimate', 'impracticable', 'prospective application and 'retrospective application' etc. have been provided in ASLB 3, whereas the same are not provided in the existing AS 5.

5. ASLB 3 requires that changes in accounting policies should be accounted for with retrospective effect subject to limited exceptions, viz., where it is impracticable to determine the period specific effects or the cumulative effect of applying a new accounting policy. On the other hand, the existing AS 5 does not specify how change in accounting policy should be accounted for.

6. The existing AS 5 defines prior period items as incomes or expenses which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods. ASLB 3 uses the term prior period errors and relates it to errors or omissions arising from a failure to use or misuse of reliable information (in addition to mathematical mistakes, mistakes in application of accounting policies etc.) that was available when the financial statements of the prior periods were approved for issuance and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. ASLB 3 specifically states that errors include frauds, which is not covered in existing AS 5.

7. Keeping in view that ASLB 1, *'Presentation of Financial Statements'*, is silent about the presentation of any items of income or expense as extraordinary items, this standard does not deal with the same, which at present is dealt with by the existing AS 5.

8. Disclosure requirements given in ASLB 3 are more detailed as compared to the disclosure requirements given in the existing AS 5.

Accounting Standard for Local Bodies (ASLB) 5

Borrowing Costs

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Appendix 1 : **Comparison with IPSAS 5, *Borrowing Costs***

Accounting Standard for Local Bodies (ASLB) 5

Borrowing Costs

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB) 5, 'Borrowing Costs', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for local bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies.

Objective

This Standard prescribes the accounting treatment for borrowing costs.

Scope

1. This Standard should be applied in accounting for borrowing costs.

2. This Standard applies to the entities described as Local Bodies in the Preface to the Accounting Standards for Local Bodies[3].

3. [Refer to Appendix 1]

[1] Attention is specifically drawn to paragraph 4.2 of the '*Preface to the Accounting Standards for Local Bodies*',according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the '*Preface to the Accounting Standards for Local Bodies*' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

4. This Standard does not deal with the actual or imputed cost of net assets/ equity. Where a capital charge is applied to individual entities, judgement will need to be exercised whether the charge meets the definition of borrowing costs or whether it should be treated as an actual or imputed cost of net assets/ equity. Charges will be treated as borrowing costs only if it meets the definition of borrowing costs.

Definitions

5. The following terms are used in this Standard with the meanings specified:

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

Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

Controlled entity is an entity that is under the control of another entity (known as the controlling entity).

Controlling entity is an entity that has one or more controlled entities.

Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities.

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

Borrowing Costs

6. Borrowing costs may include:

   (a) interest and commitment charges on bank borrowings and other short-term and long-term borrowings;

(b) amortisation of discounts or premiums relating to borrowings;

(c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;

(d) finance charges in respect of assets acquired under finance leases or under similar arrangements; and

(e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Exchange differences arising from foreign currency borrowings and considered as borrowing costs are those exchange differences which arise on the amount of principal of the foreign currency borrowings to the extent of the difference between interest on local currency borrowings and interest on foreign currency borrowings. Thus, the amount of exchange difference not exceeding the difference between interest on local currency borrowings and interest on foreign currency borrowings is considered as borrowing costs to be accounted for under this Standard and the remaining exchange difference, if any, will be accounted for under Accounting Standard for Local Bodies (ASLB) on *'The Effects of Changes in Foreign Exchange Rates'*[4]. For this purpose, the interest rate for the local currency borrowings is considered as that rate at which the entity would have raised the borrowings locally had the entity not decided to raise the foreign currency borrowings. Guidance on accounting for the effects of changes in foreign exchange rates can be found in Accounting Standard (AS) 11, *'The Effects of Changes in Foreign Exchange Rates'*, until the ASLB on this subject is formulated.

The application of this explanation is illustrated in the Appendix A.

Economic Entity

7. The term "economic entity" is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

[4] The Accounting Standard for Local Bodies is under preparation.

8. Other terms sometimes used to refer to an economic entity include "administrative entity", "financial entity", "consolidated entity" and "group".

9. An economic entity may include entities with both social policy and commercial objectives. For example, a local body XYZ (controlling entity) may control by way of majority voting power in an entity ABC (controlled entity) that provides services of health care for a nominal charge, as well as another entity PQR (controlled entity) that provides transport services on a commercial basis. The group of entities comprising local body XYZ and the controlled entities, viz., ABC and PQR, is the economic entity.

10-11. [Refer to Appendix 1]

Net Assets/Equity

12. "Net assets/equity" is the term used in this Standard to refer to the residual measure in the balance sheet (assets less liabilities). Net assets/equity may be positive or negative. Other terms may be used in place of net assets/equity, provided that their meaning is clear.

Qualifying Assets

12A. What constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time which an asset takes, technologically and commercially, to get ready for its intended use or sale should be considered.

13. Examples of qualifying assets are office buildings, hospitals, infrastructure assets such as roads, bridges and power generation facilities, and inventories that require a substantial period of time to bring them to a condition ready for use or sale, and investment properties. Other investments and those inventories that are routinely produced over a short period of time, are not qualifying assets. Assets that are ready for their intended use or sale when acquired also are not qualifying assets.

Recognition

14-16. [Refer to Appendix 1]

17. Borrowing costs should be recognised as an expense in the period in which they are incurred, except to the extent that they are capitalised in accordance with paragraph 13.

18. Borrowing costs that are specifically incurred for the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard.

19. Borrowing costs are capitalised as part of the cost of a qualifying asset when it is probable that they will result in future economic benefits or service potential to the entity and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

20. [Refer to Appendix 1]

20A. When an entity borrows funds generally and uses them for the purposes of obtaining a qualifying asset, the entity recognises an expense for the borrowing costs in respect of such funds in the period in which they are incurred.

Borrowing Costs Eligible for Capitalisation

21. When an entity borrows funds specifically for the purpose of obtaining a particular qualifying asset, the borrowing costs that directly relate to that qualifying asset can be readily identified. Funds sourced from general borrowings of the entity are not specifically incurred and costs related to such borrowings are not eligible for capitalisation.

22. Funds that have been borrowed centrally may be transferred to other entities within the economic entity as a loan, a grant or a capital injection. Some loans may be interest-free or require that only a portion of the actual interest cost be recovered and grants or capital injections do not normally incur interest. Borrowing costs in respect of such borrowings do not qualify for capitalisation.

23. To the extent that an entity borrows funds specifically for the purpose of acquiring, constructing or producing a qualifying asset, the entity should determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

24. The financing arrangements for a qualifying asset may result in an entity obtaining borrowed funds and incurring associated borrowing costs before some or all of the funds are used for expenditures on the qualifying asset. In such circumstances, the funds are often temporarily invested pending their expenditures on the qualifying asset. In determining the amount of borrowing costs eligible for capitalisation during a period, any income earned on temporary investment of such funds is deducted from the borrowing costs incurred.

25. [Refer to Appendix 1]

26. If a controlling entity borrows funds which are then loaned to a controlled entity, the controlled entity may captalise only those borrowing costs which it itself incurs specifically in relation to the acquisition, construction or production of a qualifying asset. Such costs will normally be documented in loan agreement with the controlling entity. Where a controlled entity receives an interest-free capital contribution or capital grant, it will not incur any borrowing costs and consequently will not capitalise any such costs.

27. When a controlling entity transfers funds at partial cost to a controlled entity, the controlled entity may capitalise that portion of borrowing costs which it itself has incurred specifically for the acquisition, construction or production of a qualifying asset. These borrowing costs are not necessarily identical to the borrowing costs incurred by the controlling entity. In the financial statements of the economic entity, the full amount of borrowing costs specifically incurred for the acquisition, construction or production of a qualifying asset can be capitalised as part of the cost of that qualifying asset, provided that appropriate consolidation adjustments have been made to eliminate those costs capitalised by the controlled entity.

28. When a controlling entity has transferred funds at no cost to a controlled entity, neither the controlling entity nor the controlled entity would meet the criteria for capitalisation of borrowing costs in their separate financial statements. However, if the economic entity met the criteria for capitalisation of borrowing

costs, it would be able to capitalise the borrowing costs to the qualifying asset in its financial statements.

29. [Refer to Appendix 1]

29A. When a controlling entity borrows funds generally, and lends part of those funds to a controlled entity specifically for the acquisition, construction or production of a qualifying asset, the borrowing costs of the controlling entity are not eligible for capitalisation either by that controlling entity in its separate financial statements or by the economic entity in its consolidated financial statements. The borrowing costs of the controlled entity may, however, be eligible for capitalisation in the controlled entity's separate financial statements. If the controlling entity borrows funds specifically for the acquisition, construction or production of a qualifying asset by a controlled entity, those borrowing costs, if transferred to the controlled entity, are capitalised in the separate financial statements of the controlled entity and in the consolidated financial statements of the economic entity.

Excess of the Carrying Amount of the Qualifying Asset over Recoverable Amount

30. When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other Accounting Standards for Local Bodies. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those Accounting Standards.

Commencement of Capitalisation

31. The capitalisation of borrowing costs as part of the cost of a qualifying asset should commence when all the following conditions are satisfied:

- ***(a) expenditure for the acquisition, construction or production of qualifying asset is being incurred;***
- ***(b) borrowing costs are being* incurred *specifically for the acquisition , construction or production of a qualifying asse*t; *and***

(c) activities that are necessary to prepare the asset for its intended use or sale are in progress.

32. Expenditures on a qualifying asset include only such expenditures that have resulted in payments of cash, transfers of other assets or the assumption of interest bearing liabilities. The expenditure is reduced by any progress payments received and grants received in connection with the asset.

33. The activities necessary to prepare the asset for its intended use or sale encompass more than the physical construction of the asset. They include technical and administrative work prior to the commencement of physical construction, such as the activities associated with obtaining permits prior to the commencement of the physical construction. However, such activities exclude the holding of an asset when no production or development that changes the asset's condition is taking place. For example, borrowing costs incurred while land is under development are capitalised during the period in which activities related to the development are being undertaken. However, borrowing costs incurred while land acquired for building purposes is held without any associated development activity do not qualify for capitalisation.

Suspension of Capitalisation

34. Capitalisation of borrowing costs should be suspended during extended periods in which active development is interrupted. Such borrowing costs are expensed.

35. Borrowing costs may be incurred during an extended period in which the activities necessary to prepare an asset for its intended use or sale are interrupted. Such costs are costs of holding partially completed assets and do not qualify for capitalisation. However, capitalisation of borrowing costs is not normally suspended during a period when substantial technical and administrative work is being carried out. Capitalisation of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale. For example, capitalisation continues during the extended period needed for inventories to mature or the extended period during which high water levels delay construction of a bridge, if such high water levels are common during the construction period in the geographic region involved.

Cessation of Capitalisation

36. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

37. An asset is normally ready for its intended use or sale when the physical construction of the asset is complete even though routine administrative work might still continue. If minor modifications, such as the decoration of a property to the purchaser's or user's specification, are all that is outstanding, this indicates that substantially all the activities are complete.

38. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

39. Example of a qualifying asset for which each part is capable of being used while construction continues for the other parts is an office development comprising several buildings, each of which can be used individually. Examples of qualifying assets that need to be completed before any part can be used include an operating room in a hospital when all construction must be complete before the room may be used; a sewage treatment plant where several processes are carried out in sequence at different parts of the plant; and a bridge forming part of a highway. In such cases, capitalisation of borrowing costs should be continued.

Disclosure

40. The financial statements should disclose:

> ***(a) the accounting policy adopted for borrowing costs incurred specifically for the acquisition, construction or production of a qualifying asset; and***
>
> ***(b) the amount of borrowing costs capitalised during the period.***

41-43. [Refer to Appendix 1]

Appendix A

Illustration 1

Note: This appendix is illustrative only and does not form part of the Accounting Standard. Its purpose is to assist in clarifying the meaning of the paragraph 6 (e) of the standard.

Facts:

Local Body XYZ has taken a loan of USD 10,000 on April 1, 20X3, for a specific project at an interest rate of 5% p.a., payable annually. On April 1, 20X3, the exchange rate between the currencies was Rs. 45 per USD. The exchange rate, as at March 31, 20X4, is Rs. 48 per USD. The corresponding amount could have been borrowed by Local Body XYZ in local currency at an interest rate of 11 per cent per annum as on April 1, 20X3.

The following computation would be made to determine the amount of borrowing costs for the purposes of paragraph 6(e) of this Accounting Standard for Local Bodies:

(i) Interest for the period = USD 10,000 x 5% x Rs. 48/USD = Rs. 24,000

(ii) Increase in the liability towards the principal amount = USD10,000 x (48-45) = Rs. 30,000

(iii) Interest that would have resulted if the loan was taken in Indian currency = USD 10,000 x 45 x 11% = Rs. 49,500

(iv) Difference between interest on local currency borrowing and foreign currency borrowing = Rs. 49,500 – Rs. 24,000 = Rs. 25,500

Therefore, out of Rs. 30,000 increase in the liability towards principal amount, only Rs. 25,500 will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 49,500 being the aggregate of interest of Rs. 24,000 on foreign currency borrowings (covered by paragraph 6(a) of this *Accounting Standard for Local Bodies*) plus the exchange difference to the extent of difference

between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 25,500. Thus, Rs. 49,500 would be considered as the borrowing cost to be accounted for as per this *Accounting Standard for Local Bodies* and the remaining Rs. 4,500 would be considered as the exchange difference to be accounted for as per Accounting Standard for Local Bodies (ASLB) on '*The Effects of Changes in Foreign Exchange Rates'*[5]. Guidance on accounting for the effects of changes in foreign exchange rates can be found in Accounting Standard (AS) 11, '*The Effects of Changes in Foreign Exchange Rates*', until the ASLB on this subject is formulated.

In the above example, if the interest rate on local currency borrowings is assumed to be 13% instead of 11%, the entire exchange difference of Rs. 30,000 would be considered as borrowing costs, since in that case the difference between the interest on local currency borrowings and foreign currency borrowings (i.e., Rs. 34,500 (Rs. 58,500 – Rs. 24,000)) is more than the exchange difference of Rs. 30,000. Therefore, in such a case, the total borrowing cost would be Rs. 54,000 (Rs. 24,000 + Rs. 30,000) which would be accounted for under this Accounting Standard for Local Bodies and there would be no exchange difference to be accounted for under proposed ASLB on '*The Effects of Changes in Foreign Exchange Rates'*.

[5] The Accounting Standard for Local Bodies is under preparation.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this appendix is only to bring out the major differences between this Accounting Standard for Local Bodies (ASLB) and the corresponding International Public Sector Accounting Standard (IPSAS) 5, Borrowing Costs issued by International Public Sector Accounting Standards Board.

Comparison with IPSAS 5, *Borrowing Costs*

1. Capitalisation of Borrowing Costs

IPSAS 5 prescribes the expensing of the borrowing costs as 'benchmark treatment'. However, in relation to the borrowing costs directly attributable, (both specifically and generally incurred), to the acquisition, construction or production of a qualifying asset, it provides an option of capitalising such borrowing costs in the cost of that asset. Recently, International Public Sector Accounting Standards Board (IPSASB) has issued ED 35 that proposes amendments to IPSAS 5 which inter alia include that the borrowing costs related to general borrowings are not eligible for capitalisation.

As compared to above, ASLB 5 does not prescribe expensing of borrowing costs as in IPSAS 5. It requires capitalisation of borrowing costs. However, keeping in view the initial stage of introduction of accrual accounting in Local Bodies, the ASLB 5, 'Borrowing Costs', incorporates the amendments proposed in the ED 35 requiring that only those borrowing costs that are specifically incurred for the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. Thus, ASLB 5 does not require capitalisation of borrowing costs arising from general borrowings as presently required in IPSAS 5. In this regard, paragraph 20A has been incorporate to provide guidance.

2. Substantial Period of Time

IPSAS 5 does not provide the meaning of the expression 'substantial period of time'. It provides only examples of the qualifying Asset requiring the substantial period of time. ASLB 5 provides the interpretation of the expression 'substantial period of time'. In this regard, paragraph 12A has been incorporate in the ASLB

5. It provides that ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case.

3. Commitment Charges

ASLB 4 provides that the Borrowing Costs may include commitment charges on bank borrowings. However, IPSAS 5 does not provide for including the commitment charges on bank borrowings.

4. Paragraph Deleted

Following paragraphs have been deleted in ASLB 5. However, their numbers have been retained in order to maintain consistency with the corresponding IPSAS 5.

Paragraph 3 and 11 : Not relevant for Local Bodies as it pertain to Government Business Enterprises (GBEs).

Paragraph 10 : Paragraph defining 'Assets' has been deleted in order to include the same in ASLB 1 or Conceptual Framework for General Purpose Financial Reporting by Local Bodies.

Paragraph 14-16 : Paragraph pertaining to expensing of borrowing as benchmark treatment have been deleted.

Paragraph 20, 25 and 29 : Paragraphs pertaining to capitalisation of borrowing costs in respect of general borrowings have been deleted.

Paragraph 41, 42 and 43 : Paragraphs pertaining to transitional provisions and effective date have been deleted as the ASLBs would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

Accounting Standard for Local Bodies (ASLB) 9

Revenue from Exchange Transactions

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Appendix 1 : Comparison with IPSAS 9, Revenue from Exchange Transactions

Accounting Standard for Local Bodies (ASLB) 9

Revenue from Exchange Transactions

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB) 9, '*Revenue from Exchange Transactions*', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies.

Objective

This Standard uses the term "revenue", which encompasses both revenues and gains, in place of the term "income". Certain specific items to be recognised as revenues are addressed in other Standards and are excluded from the scope of this Standard. For example, gains arising on the sale of property, plant and equipment will be specifically addressed in the Standard on property, plant and equipment and are not covered in this Standard.

The objective of this Standard is to prescribe the accounting treatment of revenue arising from exchange transactions and events. The primary issue in accounting for revenue is determining when to recognise revenue. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably. This Standard identifies

[1] Attention is specifically drawn to paragraph 4.2 of the '*Preface to the Accounting Standards for Local Bodies*',according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the '*Preface to the Accounting Standards for Local Bodies*' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

the circumstances in which these criteria will be met and, therefore, revenue will be recognised. It also provides practical guidance on the application of these criteria.

Scope

1. An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for revenue arising from the following exchange transactions and events:

> ***(a) The rendering of services yielding revenue;***
>
> ***(b) The sale of goods; and***
>
> ***(c) The use by others of entity assets yielding interest, royalties and dividends.***

2. This Standard applies to the entities described as Local Bodies in the Preface to the Accounting Standards for Local Bodies[3].

3. [Refer to Appendix 1]

4. This Standard does not deal with revenue arising from non-exchange transactions. Revenue arising from non-exchange transactions will be dealt with in the proposed Standard on '*Revenue from Non-exchange Transactions*'[4]. Examples of non-exchange transactions include revenue from the use of statutory powers (for example, taxes, duties, and fines), grants and donations.

5. Local Bodies may derive revenues from exchange or non-exchange transactions. An exchange transaction is one in which the entity transfers goods or services, or use of assets, and receives some value (primarily in the form of cash, goods, services or has liabilities extinguished) from the other party in exchange. Examples of exchange transactions include:

> (a) The purchase or sale of goods or services; or

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

[4] The proposed ASLB on '*Revenue from Non-Exchange Transactions'* is under preparation.

(b) The lease of property, plant and equipment

6. [Refer to Appendix 1]

7. The rendering of services typically involves the performance by the entity of an agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period. Examples of services rendered by local bodies for which revenue is typically received in exchange may include the provision of housing and shopping complexes, management of water facilities, management of toll roads, and management of transfer payments. Some agreements for rendering of services are directly related to the construction contracts. Revenue arising from construction contracts is dealt in accordance with the ASLB 11, '*Construction Contracts'.*

8. Goods includes goods produced by the entity for the purpose of sale, such as publications, and goods purchased for resale, such as merchandise or building and other property held for resale.

9. The use by others of entity assets gives rise to revenue in the form of:

(a) Interest — charges for the use of cash or cash equivalents or amounts due to the entity;

(b) Royalties — charges for the use of long-term assets of the entity, for example, patents, trademarks, copyrights and computer software; and

(c) Dividends or equivalents — distributions of surpluses to holders of equity investments in proportion to their holdings of a particular class of capital.

10. This Standard does not deal with revenues arising from:

(a) Addressed in other Accounting Standards for Local Bodies, including:

(i) Lease agreements (Guidance on accounting for revenue arising from lease agreements can be found in Accounting Standard (AS) 19, '*Leases',* until the ASLB on this subject is formulated);

(ii) Dividends from investments which are accounted for under the equity method in Consolidated Financial Statements (Guidance on accounting for associates can be found in Accounting Standard (AS) 23, '*Accounting for Investments in Associates in Consolidated Financial Statements',* until the ASLB on this subject is formulated);

(iii) Gains from the sale of property, plant and equipment (which is dealt with in ASLB 17, '*Property, Plant and Equipment'*).

(b) Insurance contracts of insurance entities;

(c) Changes in the fair value of financial assets and financial liabilities or their disposal (Guidance on accounting for financial instruments can be found in Accounting Standard 30, *'Financial Instruments: Recognition and Measurement'* until the ASLB on this subject is formulated);

(d) Changes in the value of other current assets;

(e) Natural increases in herds, and agricultural and forest products; and

(f) Extraction of mineral ores.

Definitions

11. The following terms are used in this Standard with the meanings specified:

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

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/ equity, other than increases relating to contributions from owners.

Revenue

12. Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account. Amounts collected as agent of the government or another government organisation or on behalf of other third parties are not economic benefits or service potential which flow to the entity and do not result in increases in assets or decreases in liabilities. Therefore, they are excluded from revenue. Similarly, in a custodial or agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal and which do not result in increases in net assets/equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any commission received or receivable for the collection or handling of the gross flows.

13. Financing inflows, notably borrowings, do not meet the definition of revenue because they result in an equal change in both assets and liabilities and have no impact upon net assets/equity. Financing inflows are taken directly to the balance sheet and added to the balances of assets and liabilities.

Measurement of Revenue

14. Revenue should be measured at the fair value of the consideration received or receivable.

15. The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

16. In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an entity may provide interest free credit to the purchaser or accept a note receivable bearing a below-market interest rate from the purchaser as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration

is determined by discounting all future receipts using an imputed rate of interest, where the effect of time value of money is material. Ordinarily, when the inflow of cash or cash equivalents is deferred beyond a period of twelve months, the effect of time value of money is likely to be material. The imputed rate of interest is the more clearly determinable of either:

(a) The prevailing rate for a similar instrument of an issuer with a similar credit rating; or

(b) A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 33 and 34.

17. When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction which generates revenue. This is often the case with commodities where suppliers exchange or swap inventories in various locations to fulfill demand on a timely basis in a particular location. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Identification of the Transaction

18. The recognition criteria in this Standard are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the effect cannot be understood without reference to the series of transactions as a whole. For

example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together.

Rendering of Services

19. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- ***(a) The amount of revenue can be measured reliably;***
- ***(b) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity;***
- ***(c) The stage of completion of the transaction at the reporting date can be measured reliably; and***
- ***(d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.***

20. The recognition of revenue by reference to the stage of completion of a transaction is often referred to as the percentage of completion method. Under this method, revenue is recognised in the reporting periods in which the services are rendered. For example, an entity providing property valuation consultancy services would recognise revenue as the individual valuations are completed. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period.

21. Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

22. An entity is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

(a) Each party's enforceable rights regarding the service to be provided and received by the parties;

(b) The consideration to be exchanged; and

(c) The manner and terms of settlement.

It is also usually necessary for the entity to have an effective internal financial budgeting and reporting system. The entity reviews and, when necessary, revises the estimates of revenue as the service is performed. The need for such revisions does not necessarily indicate that the outcome of the transaction cannot be estimated reliably.

23. The stage of completion of a transaction may be determined by a variety of methods. An entity uses the method that measures reliably the services performed. Depending on the nature of the transaction, the methods may include:

(a) Surveys of work performed;

(b) Services performed to date as a percentage of total services to be performed; or

(c) The proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

Progress payments and advances received from customers often do not reflect the services performed.

24. For practical purposes, when services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

25. ***When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognised only to the extent of the expenses recognised that are recoverable.***

26. During the early stages of a transaction, it is often the case that the outcome of the transaction cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover the transaction costs incurred. Therefore, revenue is recognised only to the extent of costs incurred that are expected to recoverable. As the outcome of the transaction cannot be estimated reliably, no surplus is recognised.

27. When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognised in accordance with paragraph 19 rather than in accordance with paragraph 25.

Sale of Goods

28. Revenue from the sale of goods should be recognised when all the following conditions have been satisfied:

- ***(a) The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;***
- ***(b) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;***
- ***(c) The amount of revenue can be measured reliably;***
- ***(d) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and***
- ***(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.***

29. The assessment of when an entity has transferred the significant risks and rewards of ownership to the purchaser requires an examination of the circumstances of the transaction. In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the purchaser. This is the case for most sales. However, in certain other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.

30. If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognised. An entity may retain a significant risk of ownership in a number of ways. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:

(a) When the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;

(b) When the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the purchaser from its sale of the goods (for example, where a local body distributes educational material to schools on a sale or return basis);

(c) When the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity; and

(d) When the purchaser has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

31. If an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognised. For example, a seller may retain the legal title to the goods solely to protect the collectability of the amount due. In such a case, if the entity has transferred the significant risks and rewards of ownership, the transaction is a sale and revenue is recognised. Another example of an entity retaining only an insignificant risk of ownership may be a sale when a refund is offered if the purchaser is not satisfied. Revenue in such cases is recognised at the time of sale provided the seller can reliably estimate future returns and recognises a liability for returns based on previous experience and other relevant factors.

32. Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. In some cases, this may not be probable until the consideration is received or until an uncertainty is removed. For example, the revenue may be dependent upon the ability of another entity to supply goods as part of the contract and if there is any doubt that this will occur, recognition may be delayed until it has occurred. When the goods are supplied, the uncertainty is removed and revenue is recognised. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Interest, Royalties and Dividends

33. ***Revenue arising from the use by others of entity assets yielding interest, royalties and dividends should be recognised using the accounting treatments set out in paragraph 34 when:***

- ***(a) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and***
- ***(b) The amount of the revenue can be measured reliably.***

34. Revenue should be recognised using the following accounting treatments:

- ***(a) Interest should be recognised on a time proportion basis that takes into account the effective yield on the asset;***
- ***(b) Royalties should be recognised as they are earned in accordance with the substance of the relevant agreement; and***
- ***(c) Dividends or equivalents should be recognised when the shareholder's or the entity's right to receive payment is established.***

35. The effective yield on an asset is the rate of interest required to discount the stream of future cash receipts expected over the life of the asset to equate to

the initial carrying amount of the asset. Interest revenue includes the amount of amortisation of any discount, premium or other difference between the initial carrying amount of a debt security and its amount at maturity. The calculation of effective yield rate and its application is illustrated in Appendix A.

36. When unpaid interest has accrued before the acquisition of an interest-bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognised as revenue. When dividends on equity securities are declared from pre-acquisition net surplus, those dividends are deducted from the cost of the securities. If it is difficult to make such an allocation except on an arbitrary basis, dividends are recognised as revenue unless they clearly represent a recovery of part of the cost of the equity securities.

37. Royalties accrue in accordance with the terms of the relevant agreement and are usually recognised on that basis unless, having regard to the substance of the agreement, it is more appropriate to recognise revenue on some other systematic and rational basis.

38. Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Disclosure

39. An entity should disclose:

- ***(a) The accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services;***

- ***(b) The amount of each significant category of revenue recognised during the period including revenue arising from:***

  - ***(i) The rendering of services yielding revenue;***

(ii) The sale of goods;

(iii) Interest;

(iv) Royalties; and

(v) Dividends or their equivalents; and

(c) The amount of revenue arising from exchange of goods or services included in each significant category of revenue.

40. Guidance on disclosure of any contingent assets and contingent liabilities can be found in ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*'. Contingent assets and contingent liabilities may arise from items such as warranty costs, claims, penalties or possible losses.

41-42. [Refer to Appendix 1]

Appendix A

The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the Standard to assist in clarifying its meaning in a number of situations. The examples focus on particular aspects of a transaction and are not a comprehensive discussion of all the relevant factors which might influence the recognition of revenue. The examples generally assume that the amount of revenue can be measured reliably, it is probable that the economic benefits or service potential will flow to the entity and the costs incurred or to be incurred can be measured reliably. The examples do not modify or override the Standard.

Local Bodies derive revenues from exchange or non-exchange transactions. This Standard deals only with revenue arising from exchange transactions. Revenue from exchange transactions is derived from:

(a) Sale of goods or provision of services to third parties;

(b) Sale of goods or provision of services to other government agencies; and

(c) The use by others of entity assets yielding interest, royalties and dividends.

Rendering of Services

1. *Rentals*

Rental income from the provision of municipal properties like shopping complexes is recognised as the income is earned in accordance with the terms of the tenancy agreement.

2. *Transport*

Revenue from fares charged to passengers for the provision of transport is recognised as the transport is provided.

3. *Management of toll roads*

Revenue from the management of toll roads is recognised as it is earned, based on the usage of the roads.

4. *Management of facilities, assets or services*

Revenue from the management of facilities, assets or services is recognised over the term of the contract as the management services are provided.

5. *Installation fees*

Installation fees are recognised as revenue by reference to the stage of completion of the installation, unless they are incidental to the sale of a product in which case they are recognised when the goods are sold.

6. *Servicing fees included in the price of the product*

When the selling price of a product includes an identifiable amount for subsequent servicing (for example, after sales support on the sale of certain goods), that amount is deferred and recognised as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable return on those services.

7. *Admission fees*

Revenue from artistic performances, banquets and other special events is recognised when the event takes place. When a subscription to a number of events is sold, the fee is allocated to each event on a basis which reflects the extent to which services are performed at each event.

8. *Tuition fees*

Revenue is recognised over the period of instruction.

9. *Initiation, entrance and membership fees*

Revenue recognition depends on the nature of the services provided. If the fee permits only membership, and all other services or products are paid for separately

e.g. library fees, or if there is a separate annual subscription, the fee is recognised as revenue when no significant uncertainty as to its collectability exists. If the fee entitles the member to services or publications to be provided during the membership period, or to purchase goods or services at prices lower than those charged to non-members, it is recognised on a basis that reflects the timing, nature and value of the benefits provided.

10. *Franchise or concession fees*

Franchise or concession fees may cover the supply of initial and subsequent services, equipment and other tangible assets, and know-how. Accordingly, franchise or concession fees are recognised as revenue on a basis that reflects the purpose for which the fees were charged. The following methods of franchise or concession fee recognition are appropriate:

(a) Supplies of equipment and other tangible assets

The amount, based on the fair value of the assets sold, is recognised as revenue when the items are delivered or title passes.

(b) Supplies of initial and subsequent services

Fees for the provision of continuing services, whether part of the initial fee or a separate fee, are recognised as revenue as the services are rendered. When the separate fee does not cover the cost of continuing services together with a reasonable return, part of the initial fee, sufficient to cover the costs of continuing services and to provide a reasonable return on those services, is deferred and recognised as revenue as the services are rendered.

(c) *Continuing franchise or concession fees*

Fees charged for the use of continuing rights granted by the agreement, or for other services provided during the period of the agreement, are recognised as revenue as the services are provided or the rights used.

(d) *Agency transactions*

Transactions may take place between the franchisor and the franchisee which, in substance, involve the franchisor acting as agent for the franchisee. For example, the franchisor may order supplies and arrange for their delivery to the franchisee at no return. Such transactions do not give rise to revenue.

Sale of Goods

11. "Bill and hold" sales, in which delivery is delayed at the purchaser's request but the purchaser takes title and accepts billing.

Revenue is recognised when the purchaser takes title, provided:

(a) It is probable that delivery will be made;

(b) The item is on hand, identified and for delivery to the purchaser at the time the sale is recognised;

(c) The purchaser specifically acknowledges the deferred delivery instructions; and

(d) The usual payment terms apply.

Revenue is not recognised when there is simply an intention to acquire or manufacture the goods in time for delivery.

12. *Goods shipped subject to conditions*

(a) Installation and inspection

Revenue is normally recognised when the purchaser accepts delivery, and installation and inspection are complete. However, revenue is recognised immediately upon the purchaser's acceptance of delivery when:

(i) The installation process is simple in nature; or

(ii) The inspection is performed only for purposes of final determination of contract prices.

(b) *On approval when the purchaser has negotiated a limited right of return*

If there is uncertainty about the possibility of return, revenue is recognised when the shipment has been formally accepted by the purchaser or the goods have been delivered and the time period for rejection has elapsed.

(c) *Consignment sales under which the recipient (purchaser) undertakes to sell the goods on behalf of the shipper (seller)*

Revenue is recognised by the shipper when the goods are sold by the recipient to a third party.

(d) *Cash on delivery sales*

Revenue is recognised when delivery is made and cash is received by the seller or its agent.

13. *Lay away sales under which the goods are delivered only when the purchaser makes the final payment in a series of installments*

Revenue from such sales is recognised when the goods are delivered. However, when experience indicates that most such sales are consummated, revenue may be recognised when a significant deposit is received provided the goods are on hand, identified and ready for delivery to the purchaser.

14. *Orders when payment (or partial payment) is received in advance of delivery for goods not presently held in inventory, for example, the goods are still to be manufactured or will be delivered directly to the customer from a third party*

Revenue is recognised when the goods are delivered to the purchaser.

15. *Sale and repurchase agreements (other than swap transactions) under which the seller concurrently agrees to repurchase the same goods at a later date, or when the seller has a call option to repurchase, or the purchaser has a*

put option to require the repurchase, by the seller, of the goods

The terms of the agreement need to be analysed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the purchaser and hence revenue is recognised. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue.

16. *Sales to intermediate parties, such as distributors, dealers or others for resale*

Revenue from such sales is generally recognised when the risks and rewards of ownership have passed. However, when the purchaser is acting, in substance, as an agent, the sale is treated as a consignment sale.

17. *Subscriptions to publications and similar items*

When the items involved are of similar value in each time period, revenue is recognised on a straight line basis over the period in which the items are dispatched. When the items vary in value from period to period, revenue is recognised on the basis of the sales value of the item dispatched in relation to the total estimated sales value of all items covered by the subscription.

18. *Installment sales, under which the consideration is receivable in installments*

Revenue attributable to the sales price, exclusive of interest, is recognised at the date of sale. The sale price is value of the consideration, determined by discounting the installments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

19. *Real estate sales*

Revenue is normally recognised when legal title passes to the purchaser. However, where the equitable interest in a property may vest in the purchaser before legal title passes and therefore the risks and rewards of ownership have transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognise revenue. In either case, if the seller is obliged to perform any significant acts after the

transfer of the equitable and/or legal title, revenue is recognised as the acts are performed. An example is a building or other facility on which construction has not been completed.

In some cases, real estate may be sold with a degree of continuing involvement by the seller such that the risks and rewards of ownership have not been transferred. Examples are sale and repurchase agreements which include put and call options, and agreements whereby the seller guarantees occupancy of the property for a specified period, or guarantees a return on the purchaser's investment for a specified period. In such cases, the nature and extent of the seller's continuing involvement determines how the transaction is accounted for. It may be accounted for as a sale, or as a financing, leasing or some other profit sharing arrangement. If it is accounted for as a sale, the continuing involvement of the seller may delay the recognition of revenue.

A seller must also consider the means of payment and evidence of the purchaser's to complete payment. For example, when the aggregate of the payments received, including the purchaser's initial down payment, or continuing payments by the purchaser, provide insufficient evidence of the purchaser's commitment to complete payment, revenue is recognised only to the extent cash is received.

Interest, Royalties and Dividends

20. *License fees and royalties*

Fees and royalties paid for the use of an entity's assets (such as trademarks, patents, software) are normally recognised in accordance with the substance of the agreement. As a practical matter, this may be on a straight line basis over the life of the agreement, for example, when a licensee has the right to use certain technology for a specified period of time.

An assignment of rights for a fixed fee or non refundable guarantee under a non cancelable contract which permits the licensee to exploit those rights freely and the licensor has no remaining obligations to perform is, in substance, a sale.

In some cases, whether or not a license fee or royalty will be received is contingent on the occurrence of a future event. In such cases, revenue is recognised only when it is probable that the fee or royalty will be received, which is normally when the event has occurred.

21. *Effective yield on an Asset*

When calculating the effective interest/yield rate, an entity should estimate cash flows considering all contractual terms of the financial asset. The calculation includes all fees paid or received that are an integral part of the effective interest rate, directly attributable transaction cost and all other premiums or discounts.

For example, Local Body XYZ purchases a 5-year bond carrying 4.7% interest (paid annually) with a face value of Rs. 1,250, for Rs. 1,000 (including transaction costs).

The effective yield rate method is applied as follow:

Effective Yield Computation

Years	Cash inflows / (outflows)
Year 0	(1,000)
Year 1	59
Year 2	59
Year 3	59
Year 4	59
Year 5	59+1250
Effective Yield Rate	**10%**

Year	(a) Amortised cost at the beginning of the year	(b=a*10%) Interest income	(c) Cash flows	(d=a+b–c) Amortised cost at the end of the year
Year 1	1,000	100	59	1,041
Year 2	1,041	104	59	1,086
Year 3	1,086	109	59	1,136
Year 4	1,136	113	59	1,190
Year 5	1,190	119	1,250 + 59	-

As per the effective yield method, the amount of interest to be recognised in Year 1 to Year 5 would be Rs. 100, Rs. 104, Rs. 109, Rs. 113 and Rs. 119 respectively.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this appendix is only to bring out the major differences between this Accounting Standard for Local Bodies (ASLB) and the corresponding International Public Sector Accounting Standard (IPSAS) 9, Revenue from Exchange Transactions.

COMPARISON WITH IPSAS 9, REVENUE FROM EXCHANGE TRANSACTION*S*

1. Definition of the term 'Exchange Transactions'

International Public Sector Accounting Standard (IPSAS) 9, *'Revenue from Exchange Transactions'* issued by International Public Sector Accounting Standards Board (IPSASB) defines a transaction as an exchange transaction, in which one entity receives assets or services, or has liabilities extinguished and directly gives approximately equal value to other party in exchange. For determining whether there is exchange of approximately equal value requires determining the fair value of the consideration given and received.

The ASLB 9 however describes an exchange transaction as one in which the entity transfers goods or services or use of assets and receives some value instead of equal value.

The ASLB 9 has changed the definition of 'Exchange Transaction' because in India most of the transactions undertaken by Local Bodies providing goods and services at subsidised prices does not involve the exchange of equal value and would not be covered under exchange transactions. Since the Local Bodies in India are at a very early stage of adoption of accrual basis of accounting, it would be difficult for the Local Bodies to determine the fair value for deciding whether there is exchange of approximately equal value for a transaction. Consequent to the above, other changes have also been incorporated in this Standard.

2. Materiality of the effect of time value of money

The ASLB 9 '*Revenue from Exchange Transactions*' requires to measure revenue

at fair value of the consideration received or receivable as provided in International Public Sector Accounting Standard (IPSAS) 9, *'Revenue from Exchange Transactions'* issued by the International Public Sector Accounting Standards Board (IPSASB). In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, in case of the financing transactions, where the inflow or outflow of cash or cash equivalents is deferred, IPSAS 9 requires to measure the fair value of the consideration by discounting all future receipts using an imputed rate of interest. However, ASLB 9 requires discounting of cash receipts only when the time value of money is material. It also provides that ordinarily, when the inflow of cash or cash equivalents is deferred beyond a period of twelve months, the effect of time value of money is material.

3. Paragraph Deleted

Following paragraphs have been deleted in ASLB 9. However, their numbers have been retained in order to maintain consistency with the corresponding IPSAS 9.

Paragraph 3 : Paragraph pertaining to Government Business Enterprises (GBEs) has been deleted.

Paragraph 6 : Explaination regarding revenue from non-exchange transaction has been dealt in paragraph 4.

Paragraphs 41 and 42 : Paragraphs pertaining to effective date have been deleted as the ASLBs would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

Accounting Standard for Local Bodies (ASLB) 11

Construction Contracts

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Accounting Standard for Local Bodies (ASLB) 11

Construction Contracts

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objectives and the Preface to the Accounting Standards for Local Bodies[1]).*

The Accounting Standard for Local Bodies (ASLB) 11, *'Construction Contracts'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies**.**

Objective

The objective of this Standard is to prescribe the accounting treatment of costs and revenue associated with construction contracts. The Standard:

- Identifies the arrangements that are to be classified as construction contracts;

- Provides guidance on the types of construction contracts that can arise in the local bodies; and

- Specifies the basis for recognition and disclosure of contract expenses and, if relevant, contract revenues.

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[1] Attention is specifically drawn to paragraph 4.2 of the '*Preface to the Accounting Standards for Local Bodies'*, according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the '*Preface to the Accounting Standards for Local Bodies'* providing the discussion on the compliance with the Accounting Standards for Local Bodies.

Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different reporting periods.

In many cases, construction contracts entered into by local bodies may or may not specify an amount of contract revenue. Rather, funding to support the construction activity will be provided by an appropriation or similar allocation of government revenue, or by aid or grant funds. In these cases, the primary issue in accounting for construction contracts is (a) the allocation of construction costs to the reporting period in which the construction work is performed, and (b) the recognition of related expenses.

In some other cases, construction contracts entered into by local bodies may be established on a commercial basis or a non-commercial full or partial cost recovery basis. In these cases, the primary issue in accounting for construction contracts is the allocation of both contract revenue and contract costs to the reporting periods in which construction work is performed.

Scope

1. An entity that prepares and presents financial statements under the accrual basis of accounting, should apply this Standard in accounting for construction contracts.

2. This Standard applies to all entities described as Local Bodies in the Preface to the Accounting Standards for Local Bodies[3].

3. [Refer to Appendix 1]

Definitions

4. The following terms are used in this Standard with the meanings specified:

> ***<u>Construction contract</u> is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a***

[3] Refer to paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

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

Terms defined in other Accounting Standards for Local Bodies are used in this Standard with the same meaning as in those other Standards.

Construction Contracts

5. A construction contract (the terms "construction contract" and "contract" are used interchangeably in the remainder of this Standard) may be negotiated for the construction of a single asset such as a bridge, building, dam, pipeline, road, ship or tunnel. A construction contract may also deal with the construction of a number of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use - examples of such contracts include those for the construction of reticulated water supply systems, roads, bridges, flyovers and other complex infrastructure assets.

6. For the purposes of this Standard, construction contracts include:

(a) Contracts for the rendering of services that are directly related to the construction of the asset, for example, those for the services of project managers and architects; and

(b) Contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

7. For the purposes of this Standard, construction contracts also include all arrangements that are binding the parties to the arrangement, but which may not take the form of a documented contract. For example, components of local body may enter into a formal arrangement for the construction of an asset but the arrangement may not constitute a legal contract because the individual departments of the local body may not be separate legal entities with the power to contract. However, provided that the arrangement confers similar rights and obligations on the parties to it as if it were in the form of a contract, it is a construction contract for the purposes of this Standard. Such binding arrangements could include (but are not limited to) a decision of the body governing the local body, or a memorandum of understanding.

8. Construction contracts are formulated in a number of ways, which, for the purposes of this Standard, are classified as fixed price contracts (lump sum contract), and cost plus or cost based contracts. Some commercial construction contracts may contain characteristics of both a fixed price contract and a cost plus or cost based contract, for example, in the case of a cost plus or cost based contract with an agreed maximum price. In such circumstances, a contractor needs to consider all the conditions in paragraphs 31 and 32 in order to determine when to recognise contract revenue and expenses.

9. Cost plus and cost based contracts encompass both commercial and non-commercial contracts. A commercial contract will specify that revenue to cover the contractor's construction costs as agreed and generate a profit margin will be provided by the other parties to the contract. However, an entity may also enter into a non-commercial contract to construct an asset for another entity in return for full or partial reimbursement of costs from that entity or other parties. In some cases, the cost recovery may encompass payments by the recipient entity and specific purpose construction grants or funding from other parties.

10. In certain cases, where one local body constructs assets for another governmental body, the cost of construction activity is not recovered directly from the recipient. Rather, the construction activity is funded indirectly (a) by way of a general appropriation or other allocation of general government funds to the contractor, or (b) from general purpose grants from third party funding agencies or other governments. These are classified as fixed price contracts for the purpose of this Standard.

10A. It is possible that a local body performs a construction activity for another entity under the arrangement termed as 'Deposit Works'. This Standard will be applicable to arrangements, if the local body acts as a contractor as defined in this Standard.

Contractor

11. A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity. The term "contractor" includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

Combining and Segmenting Construction Contracts

12. The requirements of this Standard are usually applied separately to each construction contract. However, in certain circumstances, it is necessary to apply the Standard to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

13. When a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) Separate proposals have been submitted for each asset;

(b) Each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) The costs and revenues of each asset can be identified.

14. A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when:

(a) The group of contracts is negotiated as a single package;

(b) The contracts are so closely interrelated that they are, in effect, part of a single project with an overall margin, if any; and

(c) The contracts are performed concurrently or in a continuous sequence.

15. A contract may provide for the construction of an additional asset at the option of the customer, or may be amended to include the construction of an additional asset. The construction of the additional asset should be treated as a separate construction contract when:

(a) The asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or

(b) The price of the asset is negotiated without regard to the original contract price.

Contract Revenue

16. Contract revenue should comprise:

(a) The initial amount of revenue agreed in the contract; and

(b) Variations in contract work, claims and incentive payments to the extent that:

> ***(i) It is probable that they will result in revenue; and***
>
> ***(ii) They are capable of being reliably measured.***

17. Contract revenue is measured at the consideration received or receivable. Both the initial and ongoing measurement of contract revenue are affected by a variety of uncertainties that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved. Where a contract is a cost plus or cost based contract, the initial amount of revenue may not be stated in the contract. Instead, it may need to be estimated on a basis consistent with the terms and provisions of the contract, such as by reference to expected costs over the life of the contract.

18. In addition, the amount of contract revenue may increase or decrease from one period to the next. For example:

(a) A contractor and a customer may agree to variations or claims that increase or decrease contract revenue in a period subsequent to that in which the contract was initially agreed;

(b) The amount of revenue agreed in a fixed price, cost plus or cost based contract may increase as a result of cost escalation or other clauses;

(c) The amount of contract revenue may decrease as a result of penalties arising from delays caused by the contractor in the completion of the contract; or

(d) When a fixed price contract involves a fixed price per unit of output, contract revenue increases or decreases as the number of units is increased or decreased.

19. A variation is an instruction by the customer for a change in the scope of the work to be performed under the contract. A variation may lead to an increase or a decrease in contract revenue. Examples of variations are changes in the specifications or design of the asset and changes in the duration of the contract. A variation is included in contract revenue when:

(a) It is probable that the customer will approve the variation and the amount of revenue arising from the variation; and

(b) The amount of revenue can be measured reliably.

20. A claim is an amount that the contractor seeks to collect from the customer or another party as reimbursement for costs not included in the contract price. A claim may arise from, for example, customer caused delays, errors in specifications or design, and disputed variations in contract work. The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations. Therefore, claims are only included in contract revenue when:

(a) Negotiations including dispute resolution mechanism such as arbitration/ adjudication by third party acceptable to both the parties to the contract, have reached an advanced stage such that it is probable that the customer will accept the claim; and

(b) The amount that it is probable will be accepted by the customer can be measured reliably.

21. Incentive payments are additional amounts paid to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when:

(a) The contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and

(b) The amount of the incentive payment can be measured reliably.

22. Contractors should review all amounts relating to the construction contract that are paid directly to subcontractors by third party funding agencies, to determine whether they meet the definition of, and recognition criteria for, revenue of the contractor under the terms of the contract. Amounts meeting the definition and recognition criteria for revenue should be accounted for by the contractor in the same way as other contract revenue. Such amounts should also be recognised as contract costs (refer to paragraph 25). Funding agencies may include provincial, national and international aid agencies and multilateral and bilateral development banks.

Contract Costs

23. Contract costs should comprise:

(a) Costs that relate directly to the specific contract;

(b) Costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis; and

(c) Such other costs as are specifically chargeable to the customer under the terms of the contract.

24. Costs that relate directly to a specific contract include:

(a) Site labour costs, including site supervision;

(b) Costs of materials used in construction;

(c) Depreciation of plant and equipment used on the contract;

(d) Costs of moving plant, equipment and materials to and from the contract site;

(e) Costs of hiring plant and equipment;

(f) Costs of design and technical assistance that are directly related to the contract;

(g) The estimated costs of rectification and guarantee work, including expected warranty costs; and

(h) Claims from third parties.

These costs may be reduced by any incidental revenue that is not included in contract revenue, for example, revenue from the sale of surplus materials at the end of the contract.

25. Contractors should review all amounts relating to the construction contract paid directly by subcontractors and which are reimbursed by third party funding agencies, to determine whether they qualify as contract costs. Amounts meeting the definition of, and recognition criteria for, contract expenses should be accounted for by the contractor in the same way as other contract expenses. Amounts reimbursed by third party funding agencies which meet the definition of, and recognition criteria for, revenue should be accounted for by the contractor in the same way as other contract revenue (refer to paragraph 22).

26. Costs that may be attributable to contract activity in general and can be allocated to specific contracts include:

(a) Insurance;

(b) Costs of design that are not directly related to a specific contract; and

(c) Construction overheads.

Such costs are allocated using methods that (a) are systematic and rational, and (b) are applied consistently to all costs having similar characteristics. The allocation is based on the normal level of construction activity. Construction overheads include costs such as the preparation and processing of construction personnel payroll. Costs that may be attributable to contract activity in general and can be allocated to specific contracts also include borrowing costs. The capitalisation of the borrowing costs should be done in accordance with ASLB 5, *'Borrowing Costs'*.

27. Costs that are specifically chargeable to the customer under the terms of the contract may include some general administration costs and development costs for which reimbursement is specified in the terms of the contract.

28. Costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from the costs of a construction contract. Such costs include:

(a) General administration costs for which reimbursement is not specified in the contract;

(b) Selling costs;

(c) Research and development costs for which reimbursement is not specified in the contract; and

(d) Depreciation of idle plant and equipment that is not used on a particular contract.

29. Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the formal completion of the contract. However, costs that relate directly to a contract and which are incurred in securing the contract are also included as part of the contract costs, if they can be separately identified and measured reliably and it is probable that the contract will be obtained. When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

Recognition of Contract Revenue and Expenses

30. When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. An expected deficit on a construction contract to which paragraph 44 applies should be recognised as an expense immediately in accordance with paragraph 44.

31. In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

(a) Total contract revenue, if any, can be measured reliably;

(b) It is probable that the economic benefits or service potential associated with the contract will flow to the entity;

(c) Both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and

(d) The contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

32. In the case of a cost plus or cost based contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

(a) It is probable that the economic benefits or service potential associated with the contract will flow to the entity; and

(b) The contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

33. The recognition of revenue and expenses by reference to the stage of completion of a contract is often referred to as the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and surplus/deficit, which can be attributed to the proportion of work completed. This method provides useful information on the extent of contract activity and performance during a period.

34. Under the percentage of completion method, contract revenue is recognised as revenue in the income and expenditure account in the reporting periods in which the work is performed. Contract costs are usually recognised as an expense in the income and expenditure account in the reporting periods in which the work to which they relate is performed. However, where it is intended at inception of the contract that contract costs are to be fully recovered from the parties to the construction contract, any expected excess of total contract costs over total contract revenue for the contract is recognised as an expense immediately in accordance with paragraph 44.

35. A contractor may have incurred contract costs that relate to future activity on the contract. Such contract costs are recognised as an asset, provided it is probable that they will be recovered. Such costs represent an amount due from the customer and are often classified as contract work in progress.

36. The outcome of a construction contract can only be estimated reliably when it is probable that the economic benefits or service potential associated with the contract will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in contract revenue, and already recognised in the income and expenditure account, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense rather than as an adjustment of the amount of contract revenue.

37. An entity is generally able to make reliable estimates after it has agreed to a contract, which establishes:

(a) Each party's enforceable rights regarding the asset to be constructed;

(b) The consideration, if any, to be exchanged; and

(c) The manner and terms of settlement.

It is also usually necessary for the entity to have an effective internal financial budgeting and reporting system. The entity reviews and, when necessary, revises the estimates of contract revenue and contract costs as the contract progresses. The need for such revisions does not necessarily indicate that the outcome of the contract cannot be estimated reliably.

38. The stage of completion of a contract may be determined in a variety of ways. The entity uses the method that measures reliably the work performed. Depending on the nature of the contract, the methods may include:

(a) The proportion that contract costs incurred for work performed to date bear to the estimated total contract costs;

(b) Surveys of work performed; or

(c) Completion of a physical proportion of the contract work.

Progress payments and advances received from customers often do not reflect the work performed.

39. When the stage of completion is determined by reference to the contract costs incurred to date, only those contract costs that reflect work performed are included in costs incurred to date. Examples of contract costs, which are excluded, are:

(a) Contract costs that relate to future activity on the contract, such as costs of materials that have been delivered to a contract site or set aside for use in a contract, but not yet installed, used or applied during contract performance, unless the materials have been made specially for the contract; and

(b) Payments made to subcontractors in advance of work to be performed under the subcontract.

40. When the outcome of a construction contract cannot be estimated reliably:

(a) Revenue should be recognised only to the extent of contract costs incurred that it is probable will be recoverable; and

(b) Contract costs should be recognised as an expense in the period in which they are incurred.

An expected deficit on a construction contract to which paragraph 44 applies should be recognised as an expense immediately in accordance with paragraph 44.

41. During the early stages of a contract it is often the case that the outcome of the contract cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover the contract costs incurred. Therefore, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable. As the outcome of the contract cannot be estimated reliably, no surplus or deficit is recognised. However, even though the outcome of the contract cannot be estimated reliably, it may be probable that total contract costs will exceed total contract revenues. In such cases, any expected excess of total contract costs over total contract revenues for the contract is recognised as an expense immediately in accordance with paragraph 44.

42. Where contract costs that are to be reimbursed by parties to the contract, are not probable of being recovered, they are recognised as an expense immediately. Examples of circumstances in which the recoverability of contract costs incurred may not be probable and in which contract costs may need to be recognised as an expense immediately include contracts:

a) Which are not fully enforceable, that is, their validity is seriously in question;

b) The completion of which is subject to the outcome of pending litigation or legislation;

c) Relating to properties that are likely to be condemned or expropriated;

d) Where the customer is unable to meet its obligations; or

e) Where the contractor is unable to complete the contract or otherwise meet its obligations under the contract.

43. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue and expenses associated with the construction contract should be recognised in accordance with paragraph 30 rather than in accordance with paragraph 40.

Recognition of Expected Deficits

44. In respect of construction contracts in which it is intended at inception of the contract that contract costs are to be fully recovered from the parties to the construction contract, when it is probable that total contract costs will exceed total contract revenue, the expected deficit should be recognised as an expense immediately.

45. Local Bodies may enter into construction contracts which specify that the revenue intended to cover the construction costs will be provided by the other parties to the contract. This may occur where, for example:

(a) Local Bodies that are largely dependant on appropriations or similar allocations of government revenue to fund their operations are also empowered to contract with any public sector undertaking or private sector entities for the construction of assets on a commercial or full cost recovery basis; or

(b) Components of Local Bodies transact with each other on an arm's length or commercial basis as may occur under a "purchaser-provider" or similar other arrangements.

In these cases, an expected deficit on a construction contract is recognised immediately in accordance with paragraph 44.

46. As noted in paragraph 9, in some cases an entity may enter into a construction contract for less than full cost recovery from the other parties to the contract. In these cases, funding in excess of that specified in the construction contract will be provided from an appropriation or other allocation of government funds to the contractor, or from general purpose grants from third party funding agencies or other governments. The requirements of paragraph 44 do not apply to these construction contracts.

47. In determining the amount of any deficit under paragraph 44, total contract revenue and total contract costs may include payments made directly to subcontractors by third party funding agencies in accordance with paragraphs 22 and 25.

48. The amount of such a deficit is determined irrespective of:

(a) Whether or not work has commenced on the contract;

(b) The stage of completion of contract activity; or

(c) The amount of surpluses expected to arise on other commercial construction contracts that are not treated as a single construction contract in accordance with paragraph 14.

Changes in Estimates

49. The percentage of completion method is applied on a cumulative basis in each reporting period to the current estimates of contract revenue and contract costs. Therefore, the effect of a change in the estimate of contract revenue or contract costs, or the effect of a change in the estimate of the outcome of a contract, is accounted for as a change in accounting estimate (see ASLB 3, *'Accounting Policies, Changes in Accounting Estimates and Errors*'). The changed estimates are used in the determination of the amount of revenue and expenses recognised in the income and expenditure account in the period in which the change is made and in subsequent periods.

Disclosure

50. An entity should disclose:

(a) The amount of contract revenue recognised as revenue in the period;

(b) The methods used to determine the contract revenue recognised in the period; and

(c) The methods used to determine the stage of completion of contracts in progress.

51. An entity should disclose each of the following for contracts in progress at the reporting date:

(a) The aggregate amount of costs incurred and recognised surpluses (less recognised deficits) to date;

(b) The amount of advances received; and

(c) The amount of retentions.

52. Retentions are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified. Progress billings are amounts of contract revenue billed for work performed on a contract, whether or not they have been paid by the customer. Advances are amounts of contract revenue received by the contractor before the related work is performed.

53. An entity should present:

(a) The gross amount due from customers for contract work as an asset; and

(b) The gross amount due to customers for contract work as a liability.

54. The gross amount due from customers for contract work is the net amount of:

(a) Costs incurred plus recognised surpluses; less

(b) The sum of recognised deficits and progress billings for all contracts in progress for which costs incurred plus recognised surpluses to be recovered by way of contract revenue (less recognised deficits) exceeds progress billings.

55. The gross amount due to customers for contract work is the net amount of:

(a) Costs incurred plus recognised surpluses; less

(b) The sum of recognised deficits and progress billings for all contracts in progress for which progress billings exceed costs incurred plus recognised

surpluses to be recovered by way of contract revenue (less recognised deficits).

56. Guidance on the disclosure of contingent liabilities and contingent assets can be found in ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*'. Contingent liabilities and contingent assets may arise from such items as warranty costs, claims, penalties or possible losses.

57. [Refer to Appendix 1]

58. [Refer to Appendix 1]

Appendix A

Implementation Guidance

The appendix is illustrative only and does not form part of the ASLB 11.

Disclosure of Accounting Policies

IG1. The following are the examples of accounting policy disclosures for a local body which enters non-commercial construction contracts with other government agencies for full, partial or no cost recovery from the other parties to the contract. The local body is also empowered to enter into commercial construction contracts with private sector entities and Public Sector Undertakings (PSUs) and to enter full cost recovery construction contracts as may be specified by appropriate agencies with certain state hospitals and state universities.

Non-Commercial Contracts

IG2. Contract costs are recognised as an expense on the percentage of completion method, measured by reference to the percentage of labour hours incurred to date to estimated total labour hours for each contract. In some cases, certain construction activity and technical supervision have been subcontracted to private sector contractors for a fixed "completion of contract" fee. Where this has occurred, the subcontracted costs are recognised as an expense on the percentage of completion method for each subcontract.

IG3. Contract revenue from full cost recovery contracts and partial cost recovery contracts entered into by the local body is recognised by reference to the recoverable costs incurred during the period, measured by the proportion that recoverable costs incurred to date bear to the estimated total recoverable costs of the contract.

Commercial Contracts

IG4. Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the percentage of labour hours incurred to date to estimated total labour hours for each contract.

IG5. Revenue from cost plus or cost-based contracts is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

The Determination of Contract Revenue and Expenses

IG6. The following examples deal with a non-commercial and a commercial construction contract. The examples illustrate one method of determining the stage of completion of a contract and the timing of the recognition of contract revenue and expenses (see paragraphs 30 to 43 of this Standard).

Non-Commercial Contracts

IG7. The Engineering and Public Works Department of a local body (the construction contractor) has a contract to build a bridge for the Department of Roads and Highways. The local body is funded by appropriation. The construction contract identifies construction requirements, including anticipated costs, technical specifications and timing of completion, but does not provide for any recovery of construction costs directly from the Department of Roads and Highways. The construction contract is a key management planning and accountability document attesting to the design and construction qualities of the bridge. It is used as input in assessing the performance of the contracting parties in delivering services of agreed technical specification within projected cost parameters. It is also used as input to future cost projections.

IG8. The initial estimate of contract costs is 8,000. It will take three years to build the bridge. An aid agency has agreed to provide funding of 4,000, being half of the construction costs - this is specified in the construction contract.

IG9. By the end of Year 1, the estimate of contract costs has increased to 8,050.

IG10. In Year 2, the Department of Roads and Highways approves a variation resulting in estimated additional contract costs of 150. The aid agency agrees to fund 50% of the variation including the variation of year 1. At the end of Year 2, costs incurred include 100 for standard materials stored at the site to be used in Year 3 to complete the project.

IG11. The local body determines the stage of completion of the contract by calculating the proportion that contract costs incurred for work performed to date bear to the latest estimated total contract costs.

IG12. A summary of the financial data during the construction period is as follows:

	Year 1	Year 2	Year 3
Initial amount of revenue agreed in contract	4,000	4,000	4,000
Variation in contract revenue	–	100	100
Total Contract Revenue	4,000	4,100	4,100
Contract costs incurred to date	2,093	6,168	8,200
Contract costs to complete	5,957	2,032	–
Total estimated contract costs	8,050	8,200	8,200
Stage of completion	26%	74%	100%

IG13. The stage of completion for Year 2 (74%) is determined by excluding from contract costs incurred for work performed to date the 100 for standard materials stored at the site for use in year 3.

IG14. The amounts of contract revenue and expenses recognised in the income and expenditure account in the three years are as follows:

	To Date	Recognised in prior years	Recognised in current year
Year 1			
Revenue (4,000 x .26)	1,040		1,040
Expenses (8,050 x .26)	2,093		2,093
Year 2			
Revenue (4,100 x .74)	3,034	1,040	1,994
Expenses (8,200 x .74)	6,068	2,093	3,975
Year 3			
Revenue (4,100 x 1.00)	4,100	3,034	1,066
Expenses (8,200 x 1.00)	8,200	6,068	2,132

Commercial Contracts

IG15. The local body's Engineering and Public Works Department (the contractor), while predominantly funded by appropriation is empowered to undertake limited construction work on a commercial basis for private sector entities. With the authority of the governing board of the local body, the local body has entered a fixed price commercial contract for 9,000 to build a bridge.

IG16. The initial amount of revenue agreed in the contract is 9,000. The contractor's initial estimate of contract costs is 8,000. It will take three years to build the bridge.

IG17. By the end of Year 1, the local body's estimate of contract costs has increased to 8,050.

IG18. In Year 2, the customer approves a variation resulting in an increase in contract revenue of 200 and estimated additional contract costs of 150. At the end of Year 2, costs incurred include 100 for standard materials stored at the site to be used in Year 3 to complete the project.

IG19. The local body determines the stage of completion of the contract by calculating the proportion that contract costs incurred for work performed to date bear to the latest estimated total contract costs. A summary of the financial data during the construction period is as follows:

	Year 1	**Year 2**	**Year 3**
Initial amount of revenue agreed in contract	9,000	9,000	9,000
Variation	_	200	200
Total Contract Revenue	9,000	9,200	9,200
Contract costs incurred to date	2,093	6,168	8,200
Contract costs to complete	5,957	2,032	_
Total estimated contract costs	8,050	8,200	8,200
Estimated Surplus	950	1,000	1,000
Stage of completion	26%	74%	100%

IG20. The stage of completion for Year 2 (74%) is determined by excluding from contract costs incurred for work performed to date the 100 for standard materials stored at the site for use in Year 3.

IG21. The amounts of revenue, expenses and surplus recognised in the income and expenditure in the three years are as follows:

	To Date	**Recognised in prior years**	**Recognised incurrent year**
Year 1			
Revenue (9,000 x .26)	2,340		2,340
Expenses (8,050 x .26)	2,093		2,093
Surplus	247		247
Year 2			
Revenue (9,200 x .74)	6,808	2,340	4,468
Expenses (8,200 x .74)	6,068	2,093	3,975
Surplus	740	247	493
Year 3			
Revenue (9,200 x 1.00)	9,200	6,808	2,392
Expenses (8,200 x 1.00)	8,200	6,068	2,132
Surplus	1,000	740	260

Contract Disclosures

Appropriation/Aid Funded Contracts and Full Cost Recovery Contracts

IG22. The Engineering and Public Works Department was recently created by local body as the entity to manage the construction of major buildings and road works for other government entities. It is funded predominantly by appropriation, but with the approval of the Governing Board is empowered to undertake construction projects financed by provincial or national or international aid

agencies. It has its own construction capabilities and can also subcontract. With the approval of the Governing Board, the Department may also undertake construction work on a commercial basis for private sector entities and Public Sector Undertaking (PSUs) and on a full cost recovery basis for state hospitals and state run universities.

IG23. The Engineering and Public Works Department has reached the end of its first year of operations. All its contract costs incurred have been paid for in cash and all its progress billings (to aid agencies that have commissioned construction work) have been received in cash. No advances to the Engineering and Public Works Department for construction work were made during the period. Contract costs incurred for contracts Band C include the cost of materials that have been purchased for the contract but which have not been used in contract performance to date. No commercial contracts have been undertaken this year. (See below for examples of commercial contracts).

- Contract A is funded out of general appropriation revenue. (The contract includes no "contract revenue" as defined).

- Contract B is with the Department of Education and the XX Aid Agency, which is funding 50% of the construction costs. (50% of the contract cost is to be reimbursed by parties to the contract and therefore is "contract revenue" as defined).

- Contract C is totally funded by the National University. (The terms of the arrangement specify that all of the contract costs be to be reimbursed by the National University: from the University's major construction fund. Therefore, "contract revenue" as defined equals contract costs).

IG24. The status of the three contracts in progress at the end of Year 1 is as follows:

		Contract		
	A	**B**	**C**	**Total**
Contract Revenue recognised in accordance with paragraph 30	_	225	350	575
Contract Expenses recognised in accordance with paragraph 30	110	450	350	910

Contract Costs funded by Appropriation	110	225	_	335
Contract Costs incurred in the period	110	510	450	1,070
recognised as expenses (para 30)	110	450	350	910
recognised as an asset (para 35)	_	60	100	160
Contract Revenue (see above)	_	225	350	575
Progress Billings (para 52)	_	225	330	555
Unbilled Contract Revenue	_	_	20	20
Advances (para 52)	_	_	_	_

The amounts to be disclosed in accordance with the standard are as follows:

Contract revenue recognised as revenue in the period (para 50(a))	575
Contract costs incurred to date (para 51(a)) (there are no recognised surpluses/less recognised deficits)	1,070
Gross amount due from contract customers for contract work (determined in accordance with paragraph 54 and presented as an asset in accordance with paragraph 53(a)	150

The amounts to be disclosed in accordance with the standard are as follows:

Contract revenue recognised as revenue in the period (para 50(a))	575
Contract costs incurred to date (para 51 (a)) (there are no recognised surpluses/less recognised deficits)	1,070
Gross amount due from contract customers for contract work (Determined in accordance with paragraph 54 and presented as an asset in accordance with paragraph 53(a)	150

Amounts to be disclosed in accordance with paragraphs 51(a) and 53(a) are as follows *(Note: contract revenue for B is 50% of contract costs):*

	A	**B**	**C**	**Total**
Contract costs incurred	110	510	450	1,070
Progress billings	0	225	330	555
Due from aid agencies and customers	_	30	120	150

IG 25. The amount disclosed in accordance with paragraph 51 (a) is the same as the amount for the current period because the disclosures relate to the first year of operation.

Commercial Contracts

IG26. The Special Division has been established within the Engineering and Public Works Department of the local body to undertake construction work on a commercial basis for Public Sector Undertaking (PSUs) and private sector entities at the direction, and with the approval, of the Governing Board. The Special Division has reached the end of its first year of operations. All its contract costs incurred have been paid for in cash and all its progress billings and advances have been received in cash. Contract costs incurred for contracts B, C and E include the cost of materials that have been purchased for the contract but which have not been used in contract performance to date. For contracts B, C and E, the customers have made advances to the contractor for work not yet performed.

IG27. The status of its five contracts in progress at the end of Year 1 is as follows:

	Contract					
	A	**B**	**C**	**D**	**E**	**Total**
Contract revenue recognised in accordance with paragraph 30	145	520	380	200	55	1,300
Contract expenses recognised in Accordance with paragraph 30	110	450	350	250	55	1,215

Expected deficits recognised in Accordance with paragraph 44	_	_	_	40	30	70
Recognised surpluses less recognised deficits	35	70	30	(90)	(30)	15
Contract costs incurred in the period	110	510	450	250	100	1,420
Contract costs incurred recognised as contract expenses in the period in accordance with paragraph 30	110	450	350	250	55	1,215
Contract costs that relate to future activity recognised as an asset in accordance with paragraph 35	_	60	100	_	45	205
Contract revenue (see above)	145	520	380	200	55	1,300
Progress billings (para 52)	100	520	380	180	55	1,235
Unbilled contract Revenue	45	_	_	20	_	65
Advances (para 52)	_	80	20	_	25	125

The amounts to be disclosed in accordance with the Standard are as follows:

Contract revenue recognised as revenue in the period (para 50(a))	1,300
Contract costs incurred and recognised surpluses (less recognised deficits) to date (para 51(a))	1,435

Advances received (para 51(b))	125
Gross amount due from customers for contract work-presented as an asset in accordance with paragraph 53 (a)	220
Gross amount due to customers for contract work-presented as an asset in accordance with paragraph 53(b)	(20)

The amounts to be disclosed in accordance with paragraphs 51(a), 53(a) and 53(b) are calculated as follows:

			Contract			
	A	**B**	**C**	**D**	**E**	**Total**
Contract costs incurred	110	510	450	250	100	1,420
Recognised surpluses less recognised deficits	35	70	30	(90)	(30)	15
	145	580	480	160	70	1,435
Progress billings	100	520	380	180	55	1,235
Due from customers	45	60	100	_	15	220
Due to customers	_	_	_	(20)	_	(20)

IG28. The amount disclosed in accordance with paragraph 51(a) is the same as the amount for the current period because the disclosures relate to the first year of operation.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) -11 and the corresponding International Public Sector Accounting Standard (IPSAS) 11, 'Construction Contracts'.

Comparison with IPSAS 11, '*Construction Contracts*'

1. ASLB 11 uses different terminology, in certain instances, from IPSAS 11. For example, the use of the term 'income and expenditure account' in ASLB 11, for which equivalent term in IPSAS 11 is 'statement of financial performance'.

2. Paragraph 3 of IPSAS 11 which provides that Government Business Enterprises should use IFRSs, has been deleted, as it is not relevant for ASLB 11, which is applicable to Local Bodies of India. However, paragraph number 3 is retained in ASLB 11, in order to maintain consistency with IPSAS 11.

3. Paragraph 10A on the applicability of the Standard in case of 'deposit works' has been included in the ASLB 11.

4. Additional commentary has been provided in paragraph 20 (a), to clarify the applicability of the ASLB 11, in the context of local bodies.

5. IPSAS 11 requires contract revenue to be measured at fair value of consideration received/receivable, whereas ASLB 11 requires that contract revenue should be measured at consideration received/receivable.

6. Paragraphs relating to effective date have been removed as the ASLB 11 would become mandatory for Local Bodies in a state from the date specified by the State Government concerned. Paragraph numbers have been retained in order to maintain consistency with IPSAS 11.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) -11 and the corresponding existing Accounting Standard (AS 7) (revised 2002), 'Construction Contracts'.

Comparison with corresponding existing Accounting Standard (AS) 7 (revised 2002), '*Construction Contracts*'.

1. ASLB 11 as compared to AS 7 includes binding arrangements that do not take the form of a legal contract within the scope of the Standard.

2. ASLB 11 includes non-commercial contracts within the scope of the Standard whereas AS 7 does not deal with such contacts.

3. ASLB 11 includes additional examples as compared to AS 7, to illustrate the application of the Standard to non-commercial construction contracts.

4. Different terminology is used in certain instances e.g., the term 'Income and Expenditure Account' is used instead of 'Profit and Loss Account'.

5. Paragraph 10A on the applicability of the Standard in case of 'deposit works' has been included in the ASLB 11.

Accounting Standard for Local Bodies (ASLB) 12

Inventories

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Accounting Standard for Local Bodies (ASLB) 12

Inventories

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1]).*

The Accounting Standard for Local Bodies (ASLB) 12, *'Inventories'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the Local Bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for all inventories except:

[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies'*, according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'* providing the discussion on the compliance with the Accounting Standards for Local Bodies.

(a) Work-in-progress arising under construction contracts, including directly related service contracts (see ASLB 11 'Construction Contracts');

(b) Shares, debentures, derivative contracts and, other financial instruments of similar nature held as stock-in-trade; and

(c) [Refer to Appendix 1]

(d) Work-in-progress of services to be provided for no or nominal consideration directly in return from the recipients.

3. This Standard does not apply to the measurement of inventories held by producers of agricultural and forest products, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in surplus or deficit in the period of the change.

4. This Standard applies to entities described as local bodies in the Preface to the Accounting Standards for Local Bodies[3].

5. [Refer to Appendix 1]

6. The inventories referred to in paragraph 2(d) are not encompassed by AS 2, '*Inventories'*, and are excluded from the scope of this standard.

7. The inventories referred to in paragraph 3 are measured at net realisable value at certain stages of production. This occurs, for example, (a) when agricultural crops have been harvested or minerals have been extracted and sale is assured under a forward contract or a government guarantee, or (b) when an active market exists and there is a negligible risk of failure to sell. These inventories are excluded only from the measurement requirements of this Standard.

8. [Refer to Appendix 1]

[3] Refer paragraph 1.3 of the *'Preface to the Accounting Standards for Local Bodies'*.

Definitions

9. The following terms are used in this Standard with the meanings specified:

> ***<u>Current replacement cost</u> is the cost the entity would incur to acquire the asset on the reporting date.***
>
> ***<u>Inventories</u> are assets:***
>
> ***(a) In the form of materials or supplies to be consumed in the production process;***
>
> ***(b) In the form of materials or supplies to be consumed or distributed in the rendering of services;***
>
> ***(c) Held for sale or distribution in the ordinary course of operations; or***
>
> ***(d) In the process of production for sale or distribution.***
>
> ***<u>Net realisable value</u> is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.***
>
> ***Terms defined in other Accounting Standards for Local Bodies are used in this Standard with the same meaning as in those Standards.***

Net Realisable Value

10. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of operations. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity-specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.

Inventories

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. In the case of a service provider, inventories include the costs of the service, as described in paragraph 28, for which the entity has not yet recognised the related revenue (guidance on recognition of revenue can be found in ASLB 9, '*Revenue from Exchange Transactions*').

12. Inventories in the local bodies may include:

    (a) Consumable stores;

    (b) Maintenance materials;

    (c) Spare parts for plant and equipment, other than those dealt with in standards on Property, Plant and Equipment;

    (d) Work-in-progress, including educational/training course materials; and

    (e) Land/property held for sale.

13. [Refer to Appendix 1]

14. [Refer to Appendix 1]

Measurement of Inventories

15. Inventories should be measured at the lower of cost and net realisable value, except where paragraph 16 or paragraph 17 applies.

16. Where inventories are acquired through a non-exchange transaction, their cost should be measured at their fair value as at the date of acquisition. Provided a Local Body falling in Level II may not measure an inventory acquired through non-exchange transaction at fair value and may measure the same at nominal value of Re. 1[4].

17. Inventories should be measured at the lower of cost and current replacement cost where they are held for:

- ***(a) Distribution at no charge or for a nominal charge; or***
- ***(b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge.***

Cost of Inventories

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

Costs of Purchase

19. The costs of purchase of inventories comprise (a) the purchase price, (b) import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and (c) transport, handling, and other costs directly attributable to the acquisition of finished goods, materials, and supplies. Trade discounts, rebates, and other similar items are deducted in determining the costs of purchase.

[4] Criteria for classification of Local Bodies in different Levels is being prepared.

Costs of Conversion

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

21. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased, so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

22. For example, the allocation of costs, both fixed and variable, incurred in the development of undeveloped land held for sale into residential or commercial landholdings could include costs relating to landscaping, drainage, pipe laying for utility connection, etc.

23. A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for

example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net realisable value, and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Other Costs

24. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

25. Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

(a) Abnormal amounts of wasted materials, labour, or other production costs;

(b) Storage costs, unless those costs are necessary in the production process before a further production stage;

(c) Administrative overheads that do not contribute to bringing inventories to their present location and condition; and

(d) Selling costs.

26. ASLB 5, *'Borrowing Costs'*, identifies limited circumstances where borrowing costs are included in the cost of inventories.

27. An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognised as interest expense over the period of the financing.

Cost of Inventories of a Service Provider

28. To the extent that service providers have inventories except those referred to in paragraph 2(d), they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. The costs of labour not engaged in providing the service are not included. Labour and other costs relating to sales and general administrative personnel are not included, but are recognised as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include surplus margins or non-attributable overheads that are often factored into prices charged by service providers.

29. [Refer to Appendix 1]

Techniques for the Measurement of Cost

30. Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency, and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of current conditions.

31. Inventories may be transferred to the entity by means of a non-exchange transaction. For example, an international aid agency may donate medical supplies to a hospital promoted by the entity in the aftermath of a natural disaster. Under such circumstances, the cost of inventory is its fair value as at the date it is acquired. In case of a Local Body falling in Level II, inventory is valued at nominal cost, i.e., Re.1.

Cost Formulas

32. The cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects, should be assigned by using specific identification of their individual costs.

33. Specific identification of costs means that specific costs are attributed to

identified items of inventory. This is an appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on the net surplus or deficit for the period.

34. When applying paragraph 33 an entity should use the same cost formula for all inventories having similar nature and use to the entity. For inventories with different nature or use (for example, certain commodities used in one segment and the same type of commodities used in another segment), different cost formulas may be justified. A difference in geographical location of inventories (and in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.

35. The cost of inventories, other than those dealt with in paragraph 32, should be assigned by using the first-in, first-out (FIFO) or weighted average cost formulas. An entity should use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.

36. For example, inventories used in one segment may have a use to the entity different from the same type of inventories used in another segment. However, a difference in geographical location of inventories, by itself, is not sufficient to justify the use of different cost formulas.

37. The FIFO formula assumes that the items of inventory that were purchased first are sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period, and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.

Net Realisable Value

38. The cost of inventories may not be recoverable if those inventories are

damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale, exchange, or distribution have increased. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets are not to be carried in excess of the future economic benefits or service potential expected to be realised from their sale, exchange, distribution, or use.

39. Inventories are usually written down to net realisable value on an item by item basis. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory that have similar purposes or end uses, and cannot practicably be evaluated separately from other items in that product line. It is not appropriate to write down inventories based on a classification of inventory, for example, finished goods, or all the inventories in a particular operation or geographical segment. Service providers generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.

40. Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices. Guidance on the treatment of provisions or contingent liabilities, such as those arising from firm sales contracts in excess of inventory quantities held, and on firm purchase contracts can be found in ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets'.*

41. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold, exchanged, or distributed at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

42. A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written

down below cost no longer exist, or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write down is reversed (i.e., the reversal is limited to the amount of the original write down) so that the new carrying amount is the lower of the cost and the revised net realisable value. This occurs, for example, when an item of inventory that is carried at net realisable value because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.

Distributing Goods at No Charge or for a Nominal Charge

43. A local body may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when an entity has determined to distribute certain goods at no charge or for a nominal amount. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the entity would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the entity. Where the economic benefits or service potential cannot be acquired in the market, an estimate of replacement cost will need to be made. If the purpose for which the inventory is held changes, then the inventory is valued using the provisions of paragraph 15.

Recognition as an Expense

44. When inventories are sold, exchanged, or distributed, the carrying amount of those inventories should be recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expense is recognised when the goods are distributed or the related service is rendered. The amount of any write-down of inventories and all losses of inventories should be recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any writedown of inventories should be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

45. For a service provider, the point when inventories are recognised as expenses normally occurs when services are rendered, or upon billing for chargeable services.

46. Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant, or equipment. Inventories allocated to another asset in this way are recognised as an expense during the useful life of that asset.

Disclosure

47. The financial statements should disclose:

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

(b) The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

(c) The carrying amount of inventories carried at fair value less costs to sell;

(d) The amount of inventories recognised as an expense during the period;

(e) The amount of any write-down of inventories recognised as an expense in the period in accordance with paragraph 42;

(f) The amount of any reversal of any writedown that is recognised in the statement of income and expenditure in the period in accordance with paragraph 42;

(g) The circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 42; and

(h) The carrying amount of inventories pledged as security for liabilities.

48. Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work-in-progress, and finished goods. The inventories of a service provider may be described as work-in-progress.

49. [Refer to Appendix 1]

50. ASLB 1 prescribes a format for surplus or deficit that results in amounts being disclosed other than the cost of inventories recognised as an expense during the period. Under this format, an entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognised as an expense for (a) raw materials and consumables, (b) labour costs, and (c) other costs, together with the amount of the net change in inventories for the period.

51. [Refer to Appendix 1]

51A. [Refer to Appendix 1]

52. [Refer to Appendix 1]

53. [Refer to Appendix 1]

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this appendix is only to bring out the major differences between this Accounting Standard for Local Bodies (ASLB) 12 and the corresponding International Public Sector Accounting Standard (IPSAS) 12, 'Inventories'.

Comparison with IPSAS 12, *'Inventories'*

1. Paragraph 5 of IPSAS 12 which provides that Government Business Enterprises should use IFRSs has been deleted as it is not relevant for ASLB 12, which is applicable to Local Bodies of India. However, paragraph number 5 is retained in ASLB 12, in order to maintain consistency with IPSAS 12.

2. Certain items of inventories such as ammunition, strategic stock piles, stock of unissued currency, postal service supplies held for sale and work-in-progress on account of client service for e.g., auditing services, where those services are sold at arm's length prices etc., given in the IPSAS 12 have been removed in the ASLB 12, keeping in view that these are not relevant for local bodies. Paragraphs dealing with the recognition of above invetnory items have also been deleted. However, paragraph number 13 & 14 have been retained in the Standard in order to maintain consistency with IPSAS 12.

3. IPSAS 12 excludes financial instruments from its scope as there are separate IPSASs on the subject. This exclusion from the scope has been deleted in the ASLB 12 keeping in view that the Standards on the subject are not proposed to be issued in the near future. However, the ASLB 12 excludes 'shares, debentures, derivative contracts and, other similar financial instruments held as stock-in-trade' from its scope.

4. IPSAS 12 specifies that it does not apply to measurement of inventories held by commodity broker-traders, who measure their inventories at fair value less costs to sell. However, this aspect has been excluded from the ASLB 12 keeping in view that Local Bodies do not induldge in activities carried on by commodity broker-traders. However, paragraph number 8

has been retained in the Standard in order to maintain consistency with IPSAS 12.

5. IPSAS 12 excludes biological assets related to agricultural activity and agricultural produce at the point of harvest from its scope as there is separate IPSAS on agriculture. This exclusion from the scope has been deleted in the ASLB 12 keeping in view that the Standard on the subject is not proposed to be issued in the near future and certain consequential changes have been made. Paragraph dealing with the measurement of agricultural produce harvested from biological assets has also been deleted. However, paragraph number 29 has been retained in the Standard in order to maintain consistency with IPSAS 12.

6. IPSAS 12 requires that inventories acquired through a non-exchange transaction should be valued at fair value. ASLB 12 prescribes that Local Bodies falling in Level II may not measure such inventories at fair value and measure the same at nominal value, i.e., Re. 1.

7. Paragraph 49 of IPSAS 12 dealing with recognition of Inventories as an expense based on function wise classification has been deleted keeping in view the fact that option provided in IPSAS 1 to present an analysis of expenses recognised in profit or loss using a classification based on their function within the entity has been removed and ASLB 1 requires only nature wise classification of expenses. However, in order to maintain consistency with paragraph numbers with IPSAS 12, the paragraph number 49 is retained in ASLB 12.

8. Paragraphs relating to effective date have been removed as the ASLB 12 would become mandatory for Local Bodies in a state from the date specified by the State Government concerned. Paragraph numbers have been retained in order to maintain consistency with IPSAS 12.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this appendix is only to bring out the major differences between this Accounting Standard for Local Bodies (ASLB) 12 and the corresponding existing Accounting Standard (AS) 2, 'Valuation of Inventories'.

Comparison with Existing AS 2, '*Valuation of Inventories*' (Revised 1999)

1. The ASLB 12 deals with the subsequent recognition of cost/carrying amount of inventories as an expense, whereas the existing AS 2 does not provide the same.

2. ASLB 12 includes valuation of work-in-progress in case of services to be provided by local bodies except where no or nominal consideration is to be received directly in return from recipients. Existing AS 2 specifically excludes work-in-progress arising in the ordinary course of business of service providers.

3. ASLB 12 uses a different definition of inventories from existing AS 2, the difference recognises that in local bodies some inventories are distributed at no charge or for a nominal charge.

4. ASLB 12 deals with valuation of inventories acquired through a non-exchange transaction. However, existing AS 2 does not deal with transactions relating to exchange or distribution consequently no such guidance is given.

5. ASLB 12 requires that where inventories are provided at no charge or for a nominal charge, they are to be valued at the lower of cost and current replacement cost. As existing AS 2 does not recognise the situation of distribution of inventories at no charge or nominal charge, no such guidance is given. In accordance with the above, the ASLB 12 defines 'current replacement cost'.

6. ASLB 12 contains additional commentary for applying Standard to local bodies.

7. The ASLB 12 deals with reversal of the write-down of inventories to net realisable value to the extent of the amount of original write-down, and the recognition and disclosure thereof in the financial statements. The existing AS 2 does not deal with such reversal.

8. Existing AS 2 specifically provides that the formula used in determining the cost of an item of inventory should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition, whereas the ASLB 12 does not specifically state so and requires the use of consistent cost formulas for all inventories having a similar nature and use to the entity. The ASLB 12 also explains this aspect.

9. The ASLB 12 requires more disclosures as compared to existing AS 2.

Accounting Standard for Local Bodies (ASLB) 14

Events After the Reporting Date

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Accounting Standard for Local Bodies (ASLB) 14

Events After the Reporting Date

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objectives and the Preface to the Accounting Standards for Local Bodies[1]).*

The Accounting Standard for Local Bodies (ASLB) 14, *'Events After the Reporting Date'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies.

Objective

1. The objective of this Standard is to prescribe:

   (a) When an entity should adjust its financial statements for events after the reporting date; and

   (b) The disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting date.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.

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[1] Attention is specifically drawn to paragraph 4.2 of the '*Preface to the Accounting Standards for Local Bodies'*, according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the '*Preface to the Accounting Standards for Local Bodies'* providing the discussion on the compliance with the Accounting Standards for Local Bodies.

Scope

2. An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in the accounting for, and disclosure of, events after the reporting date.

3. This Standard applies to the entities described as Local Bodies in the Preface to the Accounting Standards for Local Bodies[3].

4. [Refer to Appendix 1]

Definitions

5. The following terms are used in this Standard with the meanings specified:

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- ***(a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and***

- ***(b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).***

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

Terms defined in other Accounting Standards for Local Bodies are used in this Standard with the same meaning as in those other Standards.

Authorising the Financial Statements for Issue

6. In order to determine which events satisfy the definition of events after

[3] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

the reporting date, it is necessary to identify both the reporting date and the date on which the financial statements are authorised for issue. The reporting date is the last day of the reporting period to which the financial statements relate. The date of authorisation for issue is the date on which the financial statements have received approval from the individual or body with the authority to finalise those statements for issue.

7. The process involved in preparing and authorising the financial statements for issue may vary for different types of entities within and across jurisdictions. It can depend upon the nature of the entity, the governing body structure, the statutory requirements relating to that entity and the procedures followed in preparing and finalising the financial statements. In some cases, the governing body of an entity is required to issue its financial statements to a standing committee for approval. In such cases, the financial statements are authorised to issue when the governing body authorises them for issue to the standing committee.

Example

On 18 March, 20X9, the governing body of an entity authorises financial statements for issue to its standing committee. The standing committee approves the financial statements on 26 March, 20X9. The financial statements then filed with the State Government on 17 May, 20X9.

The financial statements authorised for issue on 18 March, 20X9 (date of governing body's authorisation for issue to the standing committee).

8. [Refer to Appendix 1]

Recognition and Measurement

9. In the period between the reporting date and the date of authorisation for issue, elected government including local body may announce its intentions in relation to certain matters. Whether or not these announced government intentions would require recognition as adjusting events would depend upon whether they provide more information about the conditions existing at reporting date and whether there is sufficient evidence that they can and will be fulfilled. In most cases, the announcement of government intentions will not lead to the recognition

of adjusting events. Instead, they would generally qualify for disclosure as non-adjusting events.

Adjusting Events After the Reporting Date

10. An entity should adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting date.

11. The following are examples of adjusting events after the reporting date that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

(a) The settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date. The entity adjusts any previously recognised provision related to this court case in accordance with ASLB 19, 'Provisions, Contingent Liabilities and Contingent Assets' or recognises a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with relevant paragraph of the Accounting Standard for Local Bodies 19, *'Provisions, Contingent Liabilities and Contingent Assets'*.

(b) The receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

(i) the insolvency of a debtor which occurs after the reporting date may often confirm that a doubt of recovery existed at the reporting date on a receivable account and that the entity needs to adjust the carrying amount of the receivable account; and

(ii) the sale of inventories after the reporting date may give evidence about their net realisable value (NRV) at the reporting date;

(c) The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;

(d) The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another entity under a revenue sharing agreement in place during the reporting period;

(e) The determination after the reporting date of performance bonus payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date; and

(f) The discovery of fraud or errors that show that the financial statements were incorrect.

Non-adjusting Events After the Reporting Date

12. An entity should not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date.

13. The following are examples of non-adjusting events after the reporting date:

(a) The insolvency of a debtor which occurs after the reporting date where no condition existed at the reporting date in respect of that debtor and, the entity does not adjust the carrying amount of the receivable amount. For example, insolvency of the debtor occurred due to his premises and other assets destroyed in fire after the reporting date.

(b) Where an entity has adopted a policy of regularly revaluing property to fair value, a decline in the fair value of property between the reporting date and the date when the financial statements are authorised. The fall in fair value does not normally relate to the condition of the property at the reporting date, but reflects circumstances that have arisen in the following period. Therefore,

despite its policy of regularly revaluing, an entity would not adjust the amounts recognised in its financial statements for the properties. Similarly, the entity does not update the amounts disclosed for the property as at the reporting date, although it may need to give additional disclosure under paragraph 29; and

(c) Where an entity charged with operating particular community service programmes decides after the reporting date, but before the financial statements are authorised, to provide/distribute additional benefits directly or indirectly to participants in those programmes. The entity would not adjust the expenses recognised in its financial statements in the current reporting period, although the additional benefits may meet the conditions for disclosure as non-adjusting events under paragraph 29.

Dividends or Similar Distributions

14. If an entity declares dividends or similar distributions after the reporting date, the entity should not recognise those distributions as a liability at the reporting date.

15. Dividends may arise in the local body when, for example, a local body controls and consolidates the financial statements of a transport undertaking that has outside ownership interests to whom it pays dividends. In addition, some local bodies adopt a financial management framework, for example 'public private partnership' models, that require them to pay income distributions to their controlling entity, such as the state government.

16. If dividends or similar distributions to owners are declared (i.e. the dividends or similar distributions are appropriately authorised and no longer at the discretion of the entity) after the reporting date but before the financial statements are authorised for issue, the dividends or similar distributions are not recognised as a liability at the reporting date because they do not meet the criteria of a present obligation in the ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets'*. Such dividends or similar distributions are disclosed in the notes in accordance with the ASLB 1, *'Presentation of Financial Statements'*. Dividends and similar distributions do not include a return of capital.

Going Concern

17. The determination of whether the going concern assumption is appropriate needs to be considered by each reporting entity. However, the assessment of going concern is likely to be of more relevance for individual entities than for a local body as a whole. For example, an individual entity e.g., transport undertaking may not be a going concern because the local body of which it forms part has decided to transfer all its activities to another entity. However, this restructuring has no impact upon the assessment of going concern for the local body itself.

18. An entity should not prepare its financial statements on a going concern basis if those responsible for the preparation of the financial statements or the governing body determine after the reporting date either that there is an intention to liquidate the entity or to cease operating, or that there is no realistic alternative but to do so.

19. In assessing whether the going concern assumption is appropriate for an individual entity, those responsible for the preparation of the financial statements, and/or the governing body, need to consider a wide range of factors. Those factors will include the current and expected performance of the entity, any announced and potential restructuring of organisational units, the likelihood of continued government funding and, if necessary, potential sources of replacement funding.

20. In the case of entities whose operations are substantially budget-funded, going concern issues generally only arise if the government announces its intention to cease funding the entity.

21. Some entities, may be required to be fully or substantially self-funding, and to recover the cost of goods and services from users. For any such entity, deterioration in operating results and financial position after the reporting date may indicate a need to consider whether the going concern assumption is still appropriate.

22. If the going concern assumption is no longer appropriate, this Standard requires an entity to reflect this in its financial statements. The impact of such a change will depend upon the particular circumstances of the entity, for example, whether operations are to be transferred to another entity, sold or liquidated.

Judgment is required in determining whether a change in the carrying value of assets and liabilities is required.

23. When the going concern assumption is no longer appropriate, it is also necessary to consider whether the change in circumstances leads to the creation of additional liabilities or triggers clauses in debt contracts leading to the reclassification of certain debts as current liabilities.

24. Accounting Standard for Local Bodies (ASLB) 1, '*Presentation of Financial Statements'* requires certain disclosures if:

(a) The financial statements are not prepared on a going concern basis. ASLB 1 requires that when the financial statements are not prepared on a going concern basis, this must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered to be a going concern; or

(b) Those responsible for the preparation of the financial statements are aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting date. ASLB 1 requires such uncertainties to be disclosed.

Restructuring

25. Where a restructuring announced after the reporting date meets the definition of a non-adjustable event, the appropriate disclosures are made in accordance with this Standard. Guidance on the recognition of provisions associated with restructuring can be found in ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets'*. Simply because a restructuring involves the disposal of a component of an entity this does not in itself bring into question the entity's ability to continue as a going concern. However, where a restructuring announced after the reporting date means that an entity is no longer a going concern, the nature and amount of assets and liabilities recognised may change.

Disclosure

Disclosure of Date of Authorisation

26. An entity should disclose the date when the financial statements were authorised and who gave that authorisation.

27. It is important for users to know when the financial statements were authorised for issue, as the financial statements do not reflect events after this date.

Updating Disclosure about Conditions at the Reporting Date

28. If an entity receives information after the reporting date, but before the financial statements are authorised, about conditions that existed at the reporting date, the entity should update disclosures that relate to these conditions, in the light of the new information.

29. In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting date but before the financial statements are authorised, even when the information does not affect the amounts that the entity recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting date about a contingent liability that existed at the reporting date. In addition to considering whether it should now recognise a provision an entity updates its disclosures about the contingent liability in the light of that evidence.

Disclosure of Non-adjusting Events After the Reporting Date

30. If non-adjusting events after the reporting date are material non disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity should disclose the following for each material category of non-adjusting event after the reporting date:

> ***(a) The nature of the event; and***

(b) An estimate of its financial effect, or a statement that such an estimate cannot be made.

31. The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

(a) An unusually large decline in the value of property carried at fair value, where that decline is unrelated to the condition of the property at reporting date, but is due to circumstances that have arisen since reporting date;

(b) The entity decides after reporting date, to provide/distribute substantial additional benefits in the future directly or indirectly to participants in community service programmes that it operates, and those additional benefits have a major impact on the entity;

(c) An acquisition or disposal of a major controlled entity or the outsourcing of all or substantially all of the activities currently undertaken by an entity after the reporting date;

(d) Announcing a plan to discontinue an operation or major programme, disposing of assets or settling liabilities attributable to a discontinued operation or major programme, or entering into binding agreements to sell such assets or settle such liabilities;

(e) Major purchases and disposals of assets;

(f) The destruction of a major building by a fire after the reporting date;

(g) Announcing, or commencing the implementation of, a major restructuring;

(h) The introduction of legislation to forgive loans made to entities or individuals as part of a programme;

(i) Abnormally large changes after the reporting date in asset prices or foreign exchange rates;

(j) In the case of entities that are liable for income tax or income tax equivalents, changes in tax rates or tax laws enacted or announced after the reporting date that have a significant effect on current and deferred tax assets and liabilities;

(k) Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the reporting date; and

(l) Commencing major litigation arising solely out of events that occurred after the reporting date.

32-34. [Refer to Appendix 1]

Annexure 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this appendix is only to bring out the major differences between this Accounting Standard for Local Bodies (ASLB) and the corresponding International Public Sector Accounting Standard (IPSAS) 14, 'Events After the Reporting Date'.

Comparison with IPSAS 14, '*Events After the Reporting Date*'

1. Authorising the Financial Statements for issue

(i) IPSAS 14 includes the events occurring between the reporting date and the date when the financial statements are authorised for issue, even if those events occur after the publication of an announcement of the surplus or deficit, the authorisation of the financial statements of a controlled entity or publication of other selected information relating to the financial statements. ASLB 14 presumes that the publication of an announcement of the surplus or deficit, the authorisation of the financial statements of a controlled entity or publication of other selected information relating to the financial statements are made only after the date when the financial statements are authorised for issue.

(ii) IPSAS 14 contains additional commentary in its paragraph 7 on responsibility for authorizing the financial statements. ASLB 14 does not provide this commentary in view of the fact that the responsibility for authorisation of financial statements may differ in each state or local body and is not relevant so far local bodies in India are concerned.

(iii) IPSAS 14 contains additional commentary in its paragraph 8 on determining the date of authorisation of the financial statements for issue which are finally to be authorised for issue by another body and also this body may have the power to require changes in the audited financial statements. Since, ASLB 14 does not provide the same in view of the fact that ordinarily no such power to require changes in the audited financial statements is there in India so far

local bodies are concerned, paragraph 8 has been deleted. However, the paragraph number has been retained in order to maintain consistency with the corresponding IPSAS 14.

2. IPSAS 14 contains additional commentary in its paragraph 27 on rare circumstances in which any persons or organisations have the authority to amend the financial statements after issuance. ASLB 14 does not provide this commentary presuming that no such requirements are applicable to local bodies in India.

3. Other deleted paragraphs

Paragraph 4 : Paragraph pertaining to Government Business Enterprises (GBEs) has been deleted as the same is not relevant for Local Bodies.

Paragraphs 32 & 33 : Paragraphs pertaining to effective date have been deleted as the ASLBs would become mandatory for Local Bodies in a State from the date specified by the State Government concerned as per the '*Preface to the Accounting Standards for Local Bodies*'.

Accounting Standard for Local Bodies (ASLB) 17

Property, Plant and Equipment

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Comparison with IPSAS 17, '*Property, Plant & Equipment*'

Accounting Standard for Local Bodies (ASLB) 17

Property, Plant and Equipment

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objectives and the Preface to the Accounting Standards for Local Bodies[1]).*

The Accounting Standard for Local Bodies (ASLB) 17, *'Property, Plant and Equipment'*, issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory[2] in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[3].

The following is the text of the Accounting Standard for Local Bodies**.**

Objective

1. The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognised in relation to them.

---

[1] Attention is specifically drawn to paragraph 4.2 of the '*Preface to the Accounting Standards for Local Bodies'*, according to which Accounting Standards are intended to apply only to items which are material.

[2] Till this standard is notified and made mandatory by the concerned State Government, it is recommended that Fixed Asset Register, as per format prescribed in the National Municipal Accounting Manual / State Municipal Accounting Manual, may be maintained.

[3] Reference may be made to the paragraph 7.1 of the '*Preface to the Accounting Standards for Local Bodies'* providing the discussion on the compliance with the Accounting Standards for Local Bodies.

Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for property, plant and equipment, except:

(a) When a different accounting treatment has been adopted in accordance with another Accounting Standard for Local Bodies; and

(b) In respect of heritage assets. However, the disclosure requirements of paragraphs 88, 89 and 92 apply to those heritage assets that are recognised.

3. This Standard applies to entities described as local bodies in the Preface to the Accounting Standards for Local Bodies[4].

4. This Standard applies to property, plant and equipment including infrastructure assets[5].

5. This Standard does not apply to:

(a) Biological assets, i.e., living animals or plants, related to agricultural activity;

(b) Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources; and

(c) Natural resources like natural lakes.

However, this Standard applies to property, plant and equipment used to develop or maintain the assets described in paragraphs 5(a) to 5(c).

6. Accounting Standards for Local Bodies may require recognition of an item of property, plant and equipment based on an approach different from that

[4] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies'*.

[5] Assets under Service Concession Arrangements are not included. Separate pronouncement is under preparation.

in this Standard. For example, ASLB on *'Leases'*[6] requires an entity to evaluate its recognition of an item leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard. Guidance on accounting for leases can be found in Accounting Standard (AS) 19, *'Leases'* until the ASLB on this subject is formulated.

7. An entity should apply this Standard to property that is being constructed or developed for future use as investment property but does not yet satisfy the definition of 'investment property' in ASLB on *'Investment Property'*[7]. Once the construction or development is complete, the property becomes investment property and the entity is required to apply ASLB on *'Investment Property'*. ASLB on *'Investment Property'* also applies to investment property that is being redeveloped for continued future use as investment property. An entity using the cost model for investment property in accordance with ASLB on *'Investment Property'* should use the cost model in this Standard. Guidance on accounting for investment property can be found in Accounting Standard (AS) 13, *'Investments'* until the ASLB on this subject is formulated.

Heritage Assets[8]

8. This Standard does not require an entity to recognise heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant and equipment. If an entity does recognise heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.

9. Some assets are described as 'heritage assets' because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

[6] The Accounting Standard for Local Bodies is under preparation.

[7] 'Investment Property is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for, use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of operations'. The Accounting Standard for Local Bodies on the subject is under preparation.

[8] The formulation of the ASLB on '*Heritage Assets*' is yet to be taken up.

(a) Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

(b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

(c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and

(d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years. Entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

10. Some heritage assets have service potential other than their heritage value, for example, an historic building being used for office accommodation or for commercial purposes. In these cases, they may be recognised and measured on the same basis as other items of property, plant and equipment. For other heritage assets, service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of alternative service potential can affect the choice of measurement base.

11. The disclosure requirements in paragraphs 88 to 94 require entities to make disclosures about recognised assets. Therefore, entities that recognise heritage assets are required to disclose in respect of those assets such matters as, for example:

(a) The measurement basis used;

(b) The depreciation method used, if any;

(c) The gross carrying amount;

(d) The accumulated depreciation at the end of the period, if any; and

(e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

12. [Refer to Appendix 1]

Definitions

13. The following terms are used in this Standard with the meanings specified:

***Carrying amount** (for the purpose of this Standard) is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses[9].*

***Class of property, plant and equipment** means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.*

***Cost** is the amount of cash or cash equivalents paid and the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.*

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

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

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

***Property, plant and equipment** are tangible items that:*

(a) Are held for use in the production or supply of goods or

[9] Guidance on accounting for impairment losses on cash generating assets can be found in Accounting Standard (AS) 28, '*Impairment of Assets*' until the ASLB on this subject is formulated.

> ***services, for rental to others, or for administrative purposes; and***
>
> ***(b) Are expected to be used during more than one reporting period.***

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

Useful life is:

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

Terms defined in other Accounting Standards for Local Bodies are used in this Standard with the same meaning as in those other Standards.

Recognition

14. The cost of an item of property, plant and equipment should be recognised as an asset if, and only if:

> ***(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and***
>
> ***(b) The cost or fair value of the item can be measured reliably.***

15-16. [Deleted]

17. Spare parts and servicing equipment are usually carried as inventory and recognised in the statement of income and expenditure as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in

connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

18. This standard does not prescribe the unit of measure for recognition, i.e. what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals and small items of equipment, and to apply the criteria to the aggregate value.

19. An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it[10].

20. [Refer to Appendix 1]

Infrastructure Assets

21. Some assets are commonly described as 'infrastructure assets'. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

(a) They are part of a system or network;

(b) They are specialised in nature and do not have alternative uses;

(c) They are immovable; and

(d) They may be subject to constraints on disposal.

Although ownership of infrastructure assets is not confined to Local Bodies, significant infrastructure assets are frequently found in the Local Bodies. Infrastructure assets meet the definition of property, plant and equipment and should be accounted for in accordance with this Standard. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

[10] See paragraph 25

Initial Costs

22. Items of property, plant and equipment may be required for safety or environmental reasons. The acquisition of such property, plant and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant and equipment qualify for recognition as assets because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to acquire new sprinkler systems. These enhancements are recognised as an asset because without them the entity is unable to operate the hospital in accordance with the regulations.

Subsequent Costs

23. Under the recognition principle in paragraph 14, an entity does not recognise in the carrying amount of an item of property, plant and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognised in the statement of income and expenditure as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the item of property, plant and equipment.

24. Parts of some items of property, plant and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, or a furnace may require relining after a specified number of hours of use. Items of property, plant and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 17, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of this Standard (see paragraphs 82 to 87).

25. A condition of continuing to operate an item of property, plant and equipment (for example, a water treatment plant) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Measurement at Recognition

26. An item of property, plant and equipment that qualifies for recognition as an asset should be measured at its cost.

27. Where an asset is acquired at nil or nominal consideration, its cost should be measured at its fair value as at the date of acquisition.

28. An item of property, plant and equipment may be acquired at nil or nominal consideration. For example, land may be contributed/ transferred to a Local Body by a State Government or a Government agency or a developer at no or nominal consideration, to enable the Local Body to develop parks, roads and paths in the development. An asset may also be acquired at nil or nominal consideration by the exercise of powers of acquisition. Under these circumstances the cost of the item is its fair value as at the date it is acquired.

29. For the purposes of this Standard, the measurement at recognition of an item of property, plant and equipment, acquired at no or nominal cost, at its fair value consistent with the requirements of paragraph 27, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 44, and the supporting commentary in paragraphs 45 to 50, only apply where an entity elects to revalue an item of property, plant and equipment in subsequent reporting periods.

Elements of Cost

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

    (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

    (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

    (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

31. Examples of directly attributable costs are:

    (a) Costs of employee benefits[11] arising directly from the construction or acquisition of the item of property, plant and equipment;

    (b) Costs of site preparation;

    (c) Initial delivery and handling costs;

    (d) Installation and assembly costs;

    (e) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

    (f) Professional fees.

---

[11] Guidance on accounting for employee benefits can be found in AS 15 (Revised 2005) until the ASLB on this subject is formulated.

32. An entity applies ASLB 12, *'Inventories'*, to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with ASLB 12, *'Inventories'* and this Standard are recognised and measured in accordance with ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets*'.

33. Examples of costs that are not costs of an item of property, plant and equipment are:

(a) Costs of opening a new facility;

(b) Costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) Costs of providing service in a new location or with a new class of users (including costs of staff training); and

(d) Administration and other general overhead costs.

34. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

(a) Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) Initial operating losses, such as those incurred while demand for the item's output builds up; and

(c) Costs of relocating or reorganising part or all of the entity's operations.

35. Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognised in the statement of income and expenditure, and included in their respective classifications of income and expense.

36. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see ASLB 12, *'Inventories'*). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in self-constructing an asset is not included in the cost of the asset. ASLB 5, *'Borrowing Costs'*, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.

Measurement of cost

37. The cost of an item of property, plant and equipment is the cash price equivalent or, for an item referred to in paragraph 27, its fair value at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying amount of any item in accordance with ASLB 5, *'Borrowing Costs'*.

38. One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at the fair value of the consideration given. It may be appropriate to consider also the fair value of the asset acquired if this is more clearly evident. An alternative accounting treatment that is sometimes used for

an exchange of assets, particularly when the assets exchanged are similar, is to record the asset acquired at the net book value of the assets given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.

39-40. [Refer to Appendix 1]

41. The cost of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with ASLB on *'Leases'*. Guidance on accounting for 'Leases' can be found in Accounting Standard (AS) 19, *'Leases'*, until the ASLB on this subject is formulated.

Measurement after Recognition

42. An entity should choose either the cost model in paragraph 43 or the revaluation model in paragraph 44 as its accounting policy and should apply that policy to an entire class of property, plant and equipment.

Cost Model

43. After recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation Model

44. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably should be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 53 to 55.

45. The fair value of items of property, plant and equipment is usually determined from market-based evidence by appraisal in a manner set out in the Appendix by a person holding a recognised and relevant professional qualification

for valuation. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialised buildings, motor vehicles and many types of plant and equipment.

46. For some assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Some entities may have significant holdings of such assets. Guidelines for determination of fair value of such assets are given in Appendix.

47-48. [Refer to Appendix 1]

49. The frequency of revaluations depends upon the changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

50. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

(a) Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost.

(b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 54 and 55.

51. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued.

52. A class of property, plant and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

(a) Land;

(b) Parks and Play Grounds;

(c) Buildings;

  (i) Commercial buildings such as office complexes, markets; and

  (ii) Non–commercial buildings such as administrative buildings, community centers, schools, health centers;

(d) Roads;

(e) Machinery;

(f) Electricity transmission networks;

(g) Pipelines;

(h) Drains;

(i) Bridges;

(j) Motor vehicles;

(k) Furniture and fixtures;

(l) Office equipment; and

(m) Heritage assets.

53. The items within a class of property, plant and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period say the relevant financial year and provided the revaluations are kept up to date.

54. If the carrying amount of a class of assets is increased as a result of a revaluation, the increase should be credited directly to revaluation surplus. However, the increase should be recognised in the statement of income and expenditure to the extent that it reverses a revaluation decrease of the same class of assets previously recognised in statement of income and expenditure.

55. If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease should be recognised in statement of income and expenditure. However, the decrease should be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.

56. Revaluation increases and decreases relating to individual assets within a class of property, plant and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.

57. Some or all of the revaluation surplus included in net assets/equity in respect of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognised. This may involve transferring some or the whole of the surplus when the assets within the class of property, plant and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through statement of income and expenditure.

58. [Refer to Appendix 1]

Depreciation

59. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.

60. An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges and lighting within a road system.

61. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

62. To the extent that an entity depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

63. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

64. The depreciation charge for each period should be recognised in the statement of income and expenditure unless it is included in the carrying amount of another asset.

65. The depreciation charge for a period is usually recognised in statement of income and expenditure. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the depreciation of a concrete mixer used in the construction of a building is included in the cost of the building.

Depreciation Amount and Depreciation Period

66. The depreciable amount of an asset should be allocated on a systematic basis over its useful life.

67. The residual value and the useful life of an asset should be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) should be accounted for as a change in an accounting estimate in accordance with ASLB 3, 'Accounting Policies, Changes in Accounting Estimates and Errors'.

68. Depreciation is recognised even if the fair value of the assets exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed and adjusted accordingly.

69. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

70. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

71. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

72. The future economic benefits or service potential embodied in an item of property, plant and equipment are consumed by the entity principally through the use of the asset. However, other factors such as technical or commercial

obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

(a) Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.

(b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.

(c) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.

(d) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

73. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.

74. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

75. If the cost of land includes the cost of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases,

the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.

Depreciation Method

76. The depreciation method should reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity.

77. The depreciation method applied to an asset should be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method should be changed to reflect the changed pattern. Such a change should be accounted for as a change in an accounting estimate in accordance with ASLB 3, 'Accounting Policies, Changes in Accounting Estimates and Errors'.

78. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

79. [Refer to Appendix 1]

Compensation for impairment or losses

80. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up should be included in statement of income and expenditure when the compensation becomes receivable.

81. Impairments or losses of items of property, plant and equipment, related claims for or payments of compensation from third parties and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) Impairments or losses of items of property, plant and equipment are recognised;

(b) Derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard;

(c) Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in determining surplus or deficit when it becomes receivable; and

(d) The cost of items of property, plant and equipment restored, purchased or constructed as replacement determined in accordance with this Standard.

Derecognition

82. The carrying amount of an item of property, plant and equipment should be derecognised:

(a) On disposal; or

(b) When no future economic benefits or service potential is expected from its use or disposal.

83. The gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of income and expenditure when the item is derecognised (unless ASLB on 'Leases' requires otherwise on a sale and leaseback). Gains should not be classified as revenue.

84. The disposal of an item of property, plant and equipment may occur in a variety ways (e.g. by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in

ASLB 9, *'Revenue from Exchange Transactions'* for recognising revenue from the sale of goods. ASLB on *'Leases'* applies to disposal by a sale and leaseback.

85. If, under the recognition principle in paragraph 14, an entity recognises in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

86. The gain or loss arising from the derecognition of an item of property, plant and equipment should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

87. The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with ASLB 9 reflecting the effective yield on the receivable.

Disclosure

88. The financial statements should disclose, for each class of property, plant and equipment recognised in the financial statements:

- ***(a) The measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount;***
- ***(b) The depreciation methods used;***
- ***(c) The useful lives or the depreciation rates used;***
- ***(d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and***

(e) A reconciliation of the carrying amount at the beginning and end of the period showing:

(i) Additions;

(ii) Disposals;

(iii) Acquisitions through entity combinations;

(iv) Increases or resulting from revaluations under paragraphs 44, 54 and 55 and from impairment losses (if any) recognised or reversed directly in net assets/equity;

(v) Impairment losses recognised in the statement of income and expenditure;

(vi) Impairment losses reversed in the statement of income and expenditure;

(vii) Depreciation; and

(viii) other changes.

89. The financial statements should also disclose for each class of property, plant and equipment recognised in the financial statements:

(a) The existence and amounts of restrictions on title, and property, plant and equipment pledged as securities for liabilities;

(b) The amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;

(c) The amount of contractual commitments for the acquisition of property, plant and equipment; and

(d) If it is not disclosed separately on the face of the statement of income and expenditure, the amount of compensation from third parties for items of property, plant and equipment that

were impaired, lost or given up that is included in the statement of income and expenditure.

90. Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(a) Depreciation, whether recognised in the statement of income and expenditure or as a part of the cost of other assets, during a period; and

(b) Accumulated depreciation at the end of the period.

91. In accordance with ASLB 3, *'Accounting Policies, Changes in Accounting Estimates and Errors'* an entity discloses nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant and equipment, such disclosure may arise from changes in estimates with respect to:

(a) Residual values;

(b) The estimated costs of dismantling, removing or restoring items of property, plant and equipment;

(c) Useful lives; and

(d) Depreciation methods.

92. If a class of property, plant and equipment is stated at revalued amounts, the following should be disclosed:

(a) The effective date of the revaluation;

(b) Whether an independent valuer was involved;

(c) ***The methods and significant assumptions applied in estimating the assets' fair values;***

(d) ***The extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;***

(e) ***The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;***

(f) ***The sum of all revaluation surpluses for individual items of property, plant and equipment within that class; and***

(g) ***The sum of all revaluation deficits for individual items of property, plant and equipment within that class.***

93. [Refer to Appendix 1]

94. Users of financial statements may also find the following information relevant to their needs:

(a) The carrying amount of temporarily idle property, plant and equipment;

(b) The gross carrying amount of any fully depreciated property, plant and equipment that is still in use;

(c) The carrying amount of property, plant and equipment retired from active use and held for disposal; and

(d) When the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

Transitional Provisions

95. [Refer to Appendix 1]

96. An entity that adopts accrual accounting for the first time in accordance with Accounting Standards for Local Bodies should initially recognise property, plant and equipment at cost or fair value. For items of property, plant and equipment that were acquired at no cost, or for a nominal cost, cost is the item's fair value as at the date of acquisition. The same principle will apply for items of property, plant and equipment which exists at the time when accrual accounting is adopted for the first time but recognised in subsequent years after the adoption of accrual accounting for the first time.

97. The entity should recognise the effect of the initial recognition of property, plant and equipment as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the property, plant and equipment is initially recognised.

98. Prior to first application of this Standard, an entity may recognise its property, plant and equipment on a basis other than cost or fair value as defined in this Standard, or may control assets that it has not recognised. This Standard requires entities to initially recognise items of property, plant and equipment at cost or, fair value as at the date of initial recognition in accordance with this Standard. Where assets are initially recognised at cost and were acquired at no cost, or for a nominal cost, cost will be determined by reference to the asset's fair value as at the date of acquisition. Where the cost of acquisition of an asset is not known, its cost may be estimated by reference to its fair value as at the date of acquisition.

99. When an entity initially recognises an item of property, plant and equipment at cost in accordance with this Standard, it should also recognise any accumulated depreciation and any accumulated impairment losses that relate to that item, as if it had always applied those accounting policies.

100-103. [Refer to Appendix 1]

104. When an entity takes advantage of the transitional provisions in paragraphs 96 that fact should be disclosed. When an entity takes advantage

of the transitional provisions for a second or subsequent reporting period, details of the assets or classes of asset that were not recognised at the previous reporting date but that are now recognised should be disclosed.

105-106. [Refer to Appendix 1]

107-109. [Refer to Appendix 1]

Appendix A

Implementation Guidance 1 – Determination of Fair Value of Property, Plant and Equipment by Appraisal

This guidance accompanies, but not a part of, ASLB 17.

1. If no evidence is available to determine the market value in an active and liquid market of an item of property, plant and equipment, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available. In the case of specialised buildings and other man made structures, fair value may be determined by a valuer using depreciated replacement cost, or the restoration cost or service units approaches. In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in the event of loss, a building belongs to a Local Body may be reproduced rather than replaced with alternative accommodation because of its significance to the community.

2. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment, an entity may need to estimate fair value using, for example, reproduction cost, depreciated replacement cost, or the restoration cost or service units approaches. The depreciated replacement cost of an item of property, plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgment is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued.

Implementation Guidance 2 – Frequency of Revaluation of Property, Plant and Equipment

This guidance accompanies, but is not part of, ASLB 17.

1. Paragraph 44 of ASLB 17 requires entities that adopt the revaluation model to measure its assets at a revaluated amount does not differ significantly from that which would be determined using fair value at the reporting date. Paragraph 49 of ASLB 17 specifies that the frequency of revaluations depends upon the changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. The purpose of this guidance is to assist entities that adopt the revaluation model to determine whether carrying amounts differ materially from the fair value as at reporting date.

2. An entity assesses at each reporting date whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. If any such indication exists, the entity determines the asset's fair value and revalues the asset to that amount.

3. In assessing whether there is any indication that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date, an entity considers, as a minimum, the following indications:

External sources of information

(a) Significant changes affecting the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated;

(b) Where market exists for the assets of the entity, market values are different from their carrying amounts;

(c) During the period, a price index relevant to the asset has undergone a material change;

Internal sources of information

(d) Evidence is available of obsolescence or physical damage of an asset;

(e) Significant changes affecting the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. Adverse changes include the asset becoming idle, or plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite. Favourable changes include capital expenditure incurred during the period to improve or enhance an asset in excess of its standard of performance assessed immediately before the expenditure is made; and

(f) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse or better than expected.

4. The list in paragraph 3 is not exhaustive. An entity may identify other indications that a revalued asset's carrying amount may differ materially from that which would be determined if the asset were revalued at the reporting date. The existence of these additional indicators would also indicate that the entity should revalue the asset to its current fair value as at the reporting date.

Implementation Guidance 3 – Illustrative Disclosures Examples

This guidance accompanies, but is not part of, ASLB 17.

A Local Body controls a wide range of property, plant and equipment and is responsible for replacement and maintenance of the property. The following are extracts from the notes to its Balance Sheet as at 31 March 20X1 and illustrate the principal disclosures required in accordance with this Standard.

Notes

1. Land

(a) Land consists of five thousand hectares at various locations. Land is valued at fair value as at 31 March 20X1, as determined by an authorised independent valuer.

(b) Restrictions on Titles:

Five hundred hectares of land (carried at Rs 62 lakh) is designated as public interest land and may not be sold without the approval of the state legislature. Two hundred hectares (carried at Rs 25 lakh) of the public interest land and a further two thousand hectares (carried at Rs. 250 lakh) of other land are subject to title claims by former owners in jurisdictional High Court and the Court has ordered that the land may not be disposed of until the claim is decided; the Local Body recognises the jurisdiction of the Court to hear these cases.

2. Buildings

(a) Buildings consist of administrative buildings and commercial buildings at various locations.

(b) Buildings are initially recognised at cost, but are subject to revaluation to fair value on an ongoing basis. An authorised valuer from a panel of recognised valuers determines fair value. All revaluations within a class of assets is completed within the financial year. Revaluations are kept up to date.

(c) Depreciation is calculated on a straight-line basis over the useful life of the building. Administrative buildings have a useful life of twenty-five years, and commercial buildings have a useful life of fifteen years.

(d) The Local Body has entered into five contracts for the construction of new buildings; total contract costs are Rs. 250 lakh.

3. Machinery

(a) Machinery is measured at cost less depreciation.

(b) Depreciation is calculated on a straight-line basis over the useful life of the machine.

(c) The machinery has various useful lives:
Tractors: 20 years
Concrete Mixer: 14 years
Cranes: 15 years

(d) The Local Body has entered into a contract to replace the cranes it uses to clean and maintain the buildings – the contracted cost is Rs. 100 lakh.

4. Furniture and Fixtures

(a) Furniture and fixtures are measured at cost less depreciation.

(b) Depreciation is calculated on a straight-line basis over the useful life of the furniture and fixtures.

(c) All items within this class have a useful life of seven years.

5. Infrastructure Assets

(a) Infrastructure assets are shown at cost less depreciation.

(b) Useful lives of various categories of infrastructure assets:
Flyovers: 25years
Water supply net work: 30 years
Storm water drains: 25 years

Reconciliations

(Amount in Rs. Lakh)

	Gross Block					Depreciation				Net Block	
	Opening balance	Additions during the year	Dispo-sals	Revalu-ations (net)	Closing balance	Opening balance	Depre-ciation during the year	Depre-ciation written back	Closing balance	At the end of the year	At the beginning of the year
Land	25,000	1,500	100	1,000	27,400	19,150	2,397	12	21,535	5,865	5,850
Buildings	10,000	600		200	10,800	5,850	475	-	6,325	4,475	4,150
Plant & Machinery	3,000	150	25	-	3,125	1,250	103	3	1,350	1,775	1,750
Infrastructure assets	65,000	15,000	-	(1,500)	78,500	44,500	1,425	-	45,925	32,575	20,500
Vehicles	150	50	-	-	200	25	20	-	45	155	125
Office equipments	250	30	-	-	280	52	13	-	65	215	198
Other assets	7,500	150	100		7,550	4,500	295	45	4,750	2,800	3,000
Total	1,10,900	17,480	225	(300)	1,27,855	75,327	4,728	60	79,995	47,860	35,573

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local bodies. The purpose of this appendix is only to bring out the major differences between this Accounting Standard for Local Bodies (ASLB) and the corresponding International Public Sector Accounting Standard (IPSAS) 17, 'Property, Plant and Equipment'.

Comparison with IPSAS 17, '*Property, Plant and Equipment'*

Definition

1. IPSAS 17 defines the terms 'Entity Specific Value', 'Exchange Transactions', 'Non-exchange Transactions', 'Impairment Loss of Cash Generating Assets', 'Impairment Loss of Non-cash Generating Assets', 'Recoverable Amount' and 'Recoverable Service Amount'. ASLB 17, *'Property, Plant and Equipment'* does not define these terms for the reasons given below:

(a) 'Entity Specific Value': This term is defined in the context of determining commercial substance of an exchange transaction. The concept of commercial substance is not used in ASLB 17 for measuring fair value of assets acquired in exchange for a non-monetary asset(s) with a view to simplify the requirements in this regard as the accrual accounting in Local Bodies in India is at its inception stage.

(b) 'Exchange Transactions' and 'Non-exchange Transactions': For accounting for items of property, plant and equipment acquired without incurring any obligation, ASLB 17 uses the terms 'Nil' and 'nominal consideration' in paragraph 27 in place of the term 'non-exchange transactions'. Accordingly, neither the term 'Non-exchange Transactions' nor the term 'Exchange Transactions' has been used. The aforesaid terms are not used because, these have different connotations in the ASLB 9, *'Revenue from Exchange Transactions'*.

(c) 'Impairment Loss of Non-cash Generating Assets' and 'Recoverable Service Amount': The concept of impairment loss of non-cash

generating assets has not been dealt with keeping in view the complexities involved in its application at the very early stage of adoption of accrual basis of accounting in Local Bodies in India.

(d) 'Impairment Loss of Cash Generating Assets' and 'Recoverable Amount': Since, at present, there is no ASLB on the above subject and reference has been made for guidance to Accounting Standard (AS) 28, *'Impairment of Assets',* till formulation of ASLB on this subject, these terms have not been defined in ASLB 17.

Measurement of Cost

2. IPSAS 17 requires to measure a property, plant and equipment acquired in exchange for non-monetary asset(s) or combination of non-monetary asset(s) at fair value unless the exchange transaction lacks commercial substance or the fair value of neither assets received nor the assets given up is reliably measurable. IPSAS 17 gives detailed guidance on when an exchange transaction has commercial substance. Under the ASLB 17, *'Property, Plant and Equipment',* an entity measures such acquired assets at fair value. The standard recognises an alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, to record the asset acquired at the net book value of the assets given up.

Since the Local Bodies are at early stage of adoption of accrual basis of accounting, it would be difficult for Local Bodies to apply the complexity of determining the exchange transactions that have commercial substance.

Transitional Provisions

3. IPSAS 17 contains a transitional provision providing relief from the requirement to recognise all property, plant and equipment for five years following the date of first adoption of accrual accounting. ASLB 17 does not provide for the same. However, on the lines of other ASLBs, ASLB 17 also requires in the introductory paragraph that the Standard will be recommendatory in nature in initial years for use by local bodies and mandatory for local bodies in a State from the date specified in this regard by the State Government concerned.

Terminology

4. ASLB 17 uses different terminology, in certain instances, from IPSAS 17. For example, the use of the term 'statement of income and expenditure' in ASLB 17. The equivalent terms in IPSAS 17 are 'surplus or deficit' and/or 'statement of financial performance', because in India, the Local Bodies do not, at present, use these terms.

Paragraphs Deleted

5. As a consequence of the above changes, following paragraphs have been deleted. However, their numbers have been retained in order to maintain consistency with corresponding IPSAS.

Paragraph 12 : Deleted as it pertains to Government Business Enterprises (GBEs).

Paragraph 20 : Not relevant for Local Bodies as it pertains to military equipments.

Paragraphs 39, 40, 47 & 48 : Deleted as a consequence of modification in ASLB 17 mentioned at point no. (2) in respect of measurement of cost.

Paragraphs 58 : Refer to Standard on 'Taxes'. Since there is no ASLB on the subject, the paragraph has been deleted.

Paragraphs 79 & 93 : Paragraphs refering to treatments provided under IPSAS on "Impairment of Cash Generating Assets" have been deleted as there is no ASLB on the said subject at present.

Paragraphs 95, 100, 101, 102, 103, 105 & 106 : Deleted as a consequence of modification mentioned at point no. (3) above relating to transitional provisions.

Paragraphs 107 to 108 : Paragraphs pertaining to effective date have been deleted as the ASLBs would become mandatory for Local Bodies in a State from the date specified by the State Government concerned.

Accounting Standard for Local Bodies (ASLB) 19

Provisions, Contingent Liabilities and Contingent Assets

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Accounting Standard for Local Bodies (ASLB) 19

Provisions, Contingent Liabilities and Contingent Assets

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1])*

The Accounting Standard for Local Bodies (ASLB), *'Provisions, Contingent Liabilities and Contingent Assets'* issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

Objective

The objective of this Standard is to define provisions, contingent liabilities and contingent assets, identify the circumstances in which provisions should be recognised, how they should be measured and the disclosures that should be made about them. The Standard also requires that certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements to enable users to understand their nature, timing and amount.

Scope

1. An entity which prepares and presents financial statements under

[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies'*, according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'* providing the discussion on the compliance with the Accounting Standards for Local Bodies.

the accrual basis of accounting should apply this Standard in accounting for provisions, contingent liabilities and contingent assets, except:

(a) Those provisions and contingent liabilities arising from social benefits of an entity for which it does not receive any consideration or receives a nominal consideration;

(b) [Refer to appendix 1];

(c) Those resulting from executory contracts, other than where the contract is onerous subject to other provisions of this paragraph;

(d) [Refer to Appendix 1];

(e) Those covered by another Accounting Standard for Local Bodies;

(f) [Refer to Appendix 1];

(g) Those arising from employee benefits except employee termination benefits that arise as a result of a restructuring as dealt with in this Standard; and

(h) Those resulting from financial instruments[3] that are carried at fair value.

2. This Standard applies to all entities that are described as the Local Bodies in the Preface to Accounting Standards for Local Bodies[4].

3. [Refer to Appendix 1]

4. This Standard applies to financial instruments (including guarantees) that are not carried at fair value.

5. [Deleted]

[3] *A financial Instrument* is any contract that gives rise to both a financial asset of one entity and a financial liability or equity shares of another entity.

[4] Refer paragraph 1.3 of the '*Preface to the Accounting Standards for Local Bodies*'.

6. This Standard applies to provisions for restructuring (including discontinuing operations). Where a restructuring meets the definition of a discontinuing operation, Guidance for additional disclosures may be drawn from AS 24, '*Discontinuing Operations'* till the time ASLB on the subject is issued.

Social Benefits

7. For the purposes of this Standard "social benefits" refer to goods, services and other benefits provided in the pursuit of the social policy objectives of a local body. These benefits may include:

(a) The delivery of health, education, housing, transport and other social services etc. in pursuit of social policy objective. In many cases, beneficiaries of these services are not required to pay anything or required to pay a nominal amount for these services; and

(b) Local bodies may make payments of benefits to families, the aged, the disabled, the unemployed, veterans and others. In other words, local bodies may provide financial assistance to individuals and groups in the community to access services to meet their particular needs, or to supplement their income.

8. In many cases, social benefits arise as a consequence of a commitment by the Government or Local Body to undertake particular activities on an on-going basis over the long term in order to provide particular goods and services to the community. The need for, and nature and supply of, goods and services to meet social policy will often depend on a range of demographic and social conditions and are difficult to predict. These benefits generally fall within the "social protection," "education" and "health" and may often require an actuarial assessment to determine the amount of any liability arising in respect of them. For example, if a local body is providing free health care upto age of 5 years or subsidized health care to senior citizens over the age of 70, the differential between the cost of providing the service and the amount recovered against it will be outside the purview of this standard.

9. The exclusion of these provisions and contingent liabilities from the scope of this Standard reflects that both (a) the determination of what constitutes the obligating event, and (b) the measurement of the liability in case of social

benefits require further consideration and, accordingly, will be dealt through a separate Standard. For example, there are differing views about whether the obligating event occurs when the individual meets the eligibility criteria for the benefit or at some earlier stage. To continue the example in para 8, where the benefit of free health care upto the age of 5 is announced, the determination of what constitutes an obligating event is difficult. Is it the birth of the child? Or registration for the benefit? Or registration of birth? Whether the question of the survival of the children upto the age of 5 is also to be considered?

10. Provisions and contingent liabilities arising from social benefits are excluded from the scope of this Standard. However, when an entity elects to recognise a provision for such benefits, the entity discloses the basis on which the provisions have been recognised and the measurement basis adopted. The entity also makes other disclosures required by this Standard in respect of those provisions. ASLB 1, '*Presentation of Financial Statements*', provides guidance on dealing with matters not specifically dealt with by another ASLB. ASLB 1 also includes requirements relating to the selection and disclosure of accounting policies.

11. In some cases, social benefits may give rise to a liability for which there is:

(a) Little or no uncertainty as to amount; and

(b) The timing of the obligation is not uncertain.

Accordingly, these are not likely to meet the definition of a provision in this Standard. Where such liabilities for social benefits exist, they are recognised where they satisfy the criteria for recognition as liabilities (refer also to paragraph 19). An example would be a period-end accrual for an amount owing to the existing beneficiaries in respect of aged or disability pensions that have been approved for payment consistent with the provisions of a contract or legislation.

Other Exclusions from the Scope of the Standard

12. This Standard does not apply to executory contracts unless they are onerous. Contracts giving rise to social benefits are excluded from the scope of this Standard.

13. Where another Accounting Standard for Local Bodies deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, certain types of provisions are also addressed in the Standards on:

(a) Construction contracts (see ASLB 11, '*Construction Contracts*'); and

(b) Leases (see ASLB 13, '*Leases').* However, as ASLB 13 contains no specific requirements to deal with operating leases that have become onerous, this Standard applies to such cases[5].

14. This standard does not apply to provisions arising from employee benefits (guidance on accounting for employee benefits is found in ASLB 25, '*Employee Benefits*'[6]).

15. Some amounts treated as provisions may relate to the recognition of revenue, for example where an entity gives guarantees in exchange for a fee. This Standard does not address the recognition of revenue. ASLB 9, '*Revenue from Exchange Transactions'*, identifies the circumstances in which revenue from exchange transactions is recognised and provides practical guidance on the application of the recognition criteria. This Standard does not change the requirements of ASLB 9.

16. This Standard defines provisions as liabilities of uncertain timing and amount which can be measured only by using a substantial degree of estimation. The term 'provision' is also used in the context of items such as depreciation, impairment of assets and doubtful debts: these are adjustments to the carrying amounts of assets and are not addressed in this Standard.

17. Other Accounting Standards for Local Bodies specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalisation of the costs recognised when a provision is made.

[5] This ASLB 13, '*Leases*' is under formulation.
[6] This ASLB 25, '*Employee Benefits*' is under formulation.

Definitions

18. The following terms are used in this Standard with the meanings specified:

A constructive obligation is an obligation that derives from an entity's actions where:

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A 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 the entity.

A contingent liability is:

(a) 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 recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

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

***Executory contracts* are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.**

A legal obligation is an obligation that derives from:

(a) A contract (through its explicit or implicit terms);

(b) Legislation; or

(c) Other operation of law.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

An onerous contract is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.

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

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

A provision is a liability of uncertain timing or amount.

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

(a) The scope of an entity's activities; or

(b) The manner in which those activities are carried out.

Provisions and Other Liabilities

19. Provisions can be distinguished from other liabilities such as payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

(a) Payables are liabilities to pay for goods or services that have been received or supplied, and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and

(b) Accruals are liabilities to pay for goods or services that have been received or supplied, but have not been paid, invoiced, or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued leave encashment). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of accounts payable, whereas provisions are reported separately.

Relationship between Provisions and Contingent Liabilities

20. In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard, the term contingent is used for liabilities and assets that are not recognised because their 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. In addition, the term contingent liability is used for liabilities that do not meet the recognition criteria.

21. This Standard distinguishes between:

(a) Provisions—which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations

and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; and

(b) Contingent liabilities—which are not recognised as liabilities because they are either:

(i) Possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits or service potential; or

(ii) Present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Recognition

Provisions

22. A provision should be recognised when:

(a) An entity has a present obligation (legal or constructive) as a result of a past event;

(b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

(c) A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognised.

Present Obligation

23. In some cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date.

24. In most cases, it will be clear whether a past event has given rise to a present obligation. In other cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such cases, an entity determines whether a present obligation exists at the reporting date by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting date. On the basis of such evidence:

(a) Where it is more likely than not that a present obligation exists at the reporting date, the entity recognises a provision (if the recognition criteria are met); and

(b) Where it is more likely that no present obligation exists at the reporting date, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph 100).

Past Event

25. A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:

(a) Where the settlement of the obligation can be enforced by law; or

(b) In the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.

26. Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to continue an entity's ongoing activities in the future. The only liabilities recognised in an entity's balance sheet are those that exist at the reporting date.

27. It is only those obligations arising from past events existing independently of an entity's future actions (that is, the future conduct of its activities) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage imposed by legislation on an entity. Both of these obligations would lead to an outflow of resources embodying economic benefits or service potential in settlement regardless of the future actions of that entity. Similarly, an entity would recognise a provision for the decommissioning costs of sewage treatment plant, to the extent that the entity is obliged to rectify damage already caused. ASLB 17, *' Property, Plant and Equipment',* deals with items, including dismantling and site restoring costs, that are included in the cost of an asset. In contrast, because of legal requirements, pressure from constituents, or a desire to demonstrate community leadership, an entity may intend or need to carry out expenditure to operate in a particular way in the future. An example would be where an entity decides to fit emission controls on certain of its vehicles, or a local body owned laboratory decides to install extraction units to protect employees from the fumes of certain chemicals. Because the entities can avoid the future expenditure by their future actions — for example, by changing their method of operation, they have no present obligation for that future expenditure, and no provision is recognised.

28. An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed — indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a decision by an entity's management, governing body, or controlling entity does not give rise to a constructive obligation at the reporting date, unless the decision has been communicated before the reporting date to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.

29. An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive

obligation. For example, when environmental damage is caused by a *local body agency*, there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified, or when the controlling local body or the individual agency publicly accepts responsibility for rectification in a way that creates a constructive obligation.

30. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Standard, such an obligation is treated as a legal obligation. However, differences in circumstances surrounding enactment often make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases, it is not possible to judge whether a proposed new law is virtually certain to be enacted as drafted, and any decision about the existence of an obligation should await the enactment of the proposed law.

Probable Outflow of Resources Embodying Economic Benefits or Service Potential

31. For a liability to qualify for recognition, there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits or service potential to settle that obligation. For the purpose of this Standard, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, that is, the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph 100).

32. Where there are a number of similar obligations (for example, a local body's obligation to compensate individuals who have received contaminated blood from a hospital owned by the local body), the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

Reliable Estimate of the Obligation

33. The use of estimates is an essential part of the preparation of financial statements, and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other assets or liabilities. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes, and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.

34. In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (see paragraph 100).

Contingent Liabilities

35. An entity should not recognise a contingent liability.

36. A contingent liability is disclosed, as required by paragraph 100, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

37. Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. For example, in the case of joint venture debt, that part of the obligation that is to be met by other joint venture participants is treated as a contingent liability. The entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits or service potential is probable, except in the rare circumstances where no reliable estimate can be made.

38. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made). For example, an entity may have breached an environmental law, but it remains unclear whether any damage was caused

to the environment. Where, subsequently it becomes clear that damage was caused and remediation will be required, the entity would recognise a provision because an outflow of economic benefits is now probable.

Contingent Assets

39. An entity should not recognise a contingent asset.

40. Contingent assets usually arise from unplanned or other unexpected events that (a) are not wholly within the control of the entity, and (b) give rise to the possibility of an inflow of economic benefits or service potential to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.

41. Contingent assets are not recognised in financial statements, since this may result in the recognition of revenue that may never be realised. However, when the realisation of revenue is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

42. A contingent asset is disclosed, as required by paragraph 105, where an inflow of economic benefits or service potential is probable.

43. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits or service potential has become probable, an entity discloses the contingent asset (see paragraph 105).

Measurement

Best Estimate

44. The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date.

45. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the reporting date. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.

46. The estimates of outcome and financial effect are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

47. [Refer to Appendix 1]

48. [Refer to Appendix 1]

49. [Refer to Appendix 1]

Risks and Uncertainties

50. The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

51. Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgments under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

52. Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 98(b).

53-57. **[Refer to Appendix 1]**

Future Events

58. Future events that may affect the amount required to settle an obligation should be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

59. Expected future events may be particularly important in measuring provisions. For example, certain obligations may be index linked to compensate recipients for the effects of inflation or other specific price changes. If there is sufficient evidence of likely expected rates of inflation, this should be reflected in the amount of the provision. Another example of future events affecting the amount of a provision is where a local body believes that the cost of cleaning up the tar, ash, and other pollutants associated with a gasworks site at the end of its life will be reduced by future changes in technology. In this case, the amount recognised reflects the cost that technically qualified, objective observers reasonably expect to be incurred, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus, it is appropriate to include, for example, expected cost reductions associated with increased experience in applying existing technology, or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.

60. The effect of possible new legislation which may affect the amount of an existing obligation of an entity is taken into consideration in measuring that obligation, when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both (a) of what legislation will demand, and (b) of whether it is virtually certain to be enacted and implemented in due course. In many cases, sufficient objective evidence will not exist until the new legislation is enacted.

Expected Disposal of Assets

61. Gains from the expected disposal of assets should not be taken into account in measuring a provision.

62. Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an entity recognises gains on expected disposals of assets at the time specified by the Accounting Standard for Local Bodies (ASLBs) dealing with the assets concerned.

Reimbursements

63. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

64. In the statement of income and expenditure, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

65. Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses, or suppliers' warranties). The other party may either reimburse amounts paid by the entity, or pay the amounts directly. For example, an entity may have legal liability to an individual as a result of misleading advice provided by its employees. However, the entity may be able to recover some of the expenditure from professional indemnity insurance.

66. In most cases, the entity will remain liable for the whole of the amount in question, so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognised for the full amount of the liability, and a separate asset for the expected reimbursement is recognised when it is virtually certain that reimbursement will be received if the entity settles the liability.

67. In some cases, the entity will not be liable for the costs in question if the third party fails to pay. In such a case, the entity has no liability for those costs, and they are not included in the provision.

68. As noted in paragraph 37, an obligation for which an entity is jointly and severally liable is a contingent liability, to the extent that it is expected that the obligation will be settled by the other parties.

Changes in Provisions

69. Provisions should be reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision should be reversed.

70. [Refer to Appendix 1]

Use of Provisions

71. A provision should be used only for expenditures for which the provision was originally recognised.

72. Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.

Application of the Recognition and Measurement Rules

Future Operating Net Deficits

73. Provisions should not be recognised for net deficits from future operating activities.

74. Net deficits from future operating activities do not meet the definition of liabilities in paragraph 18 and the general recognition criteria set out for provisions in paragraph 22.

75. An expectation of net deficits from future operating activities is an indication that certain assets used in these activities may be impaired. An entity tests these assets for impairment. Guidance on accounting for impairment is found in ASLB 21, '*Impairment of Non-Cash-Generating Assets*' or ASLB 26, '*Impairment of Cash-Generating Assets*'[7], as appropriate.

Onerous Contracts

76. If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract should be recognised and measured as a provision.

77. Paragraph 76 of this Standard applies only to contracts that are onerous. Contracts of social benefits are excluded from the scope of this Standard.

78. Many contracts evidencing exchange transactions (for example, some routine purchase orders) can be canceled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard, and a liability exists which is recognised. Executory contracts that are not onerous fall outside the scope of this Standard.

79. This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it, which includes amounts recoverable. Therefore, it is the present obligation net of recoveries that is recognised as a provision under paragraph 76. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

80. Before a separate provision for an onerous contract is established, an entity recognises any impairment loss as per ASLB 17, '*Property, Plant and Equipment*', that has occurred on assets dedicated to that contract.

[7] These ASLBs are under formulation.

Restructuring

81. The following are examples of events that may fall under the definition of restructuring:

   (a) Termination or disposal of an activity or service;

   (b) The closure of a ward office or termination of activities of a local body's department or the relocation of activities from one place to another with in the jurisdiction of that local body;

   (c) [Refer to Appendix 1];

   (d) Fundamental reorganizations that have a material effect on the nature and focus of the entity's operations.

82. A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 22 are met. Paragraphs 83 to 96 set out how the general recognition criteria apply to restructurings.

83. A constructive obligation to restructure arises only when an entity:

   (a) Has a detailed formal plan for the restructuring identifying at least:

      (i) The activity/operating unit or part of an activity/operating unit concerned;

      (ii) The principal locations affected;

      (iii) The location, function, and approximate number of employees who will be compensated for terminating their services;

      (iv) The expenditures that will be undertaken; and

      (v) When the plan will be implemented; and

(b) Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

84. Within the local body, restructuring may occur at local body level, or it's department level.

85. Evidence that a local body has started to implement a restructuring plan would be provided, for example, by (a) the public announcement of the main features of the plan, (b) the sale or transfer of assets, (c) notification of intention to cancel leases, or (d) the establishment of alternative arrangements for clients of services. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail (that is, setting out the main features of the plan) that it gives rise to valid expectations in other parties, such as users of the service, suppliers, and employees (or their representatives) that the local body will carry out the restructuring.

86. For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as possible, and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins, or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the local body is at present committed to restructuring, because the timeframe allows opportunities for the local body to change its plans.

87. A decision by management or the governing body to restructure, taken before the reporting date, does not give rise to a constructive obligation at the reporting date unless the entity has, before the reporting date:

(a) Started to implement the restructuring plan; or

(b) Announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting date, disclosure may be required under ASLB 14, '*Events after the Reporting Date'*, if the restructuring is material and non-disclosure could influence the economic decisions of users taken on the financial statements.

88. Although a constructive obligation is not created solely by a management or governing body decision, an obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale or transfer of an operation, may have been concluded subject only to governing body or board approval. Once that approval has been obtained and communicated to the other parties, the entity has a constructive obligation to restructure, if the conditions of paragraph 83 are met.

89. In some cases, (a) the ultimate authority for making decisions about an entity is vested in a governing body or board whose membership includes representatives of interests other than those of management (for
example, employees), or (b) notification to these representatives may be necessary before the governing body or – competent authority's decision is taken. Because a decision by such a governing body or competent authority involves communication to these representatives, it may result in a constructive obligation to restructure.

Sale or Transfer of Operations

90. No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.

91. Even when an entity has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the entity will be able to change its mind, and indeed will have to take another course of action if a purchaser cannot be found on acceptable terms. When a sale is only part of a restructuring, a constructive obligation can arise for the other parts of the restructuring before a binding sale agreement exists.

92. Restructuring within a local body often involves the transfer of operations from one controlled entity to another, and may involve the transfer of operations at no or nominal consideration. Such transfers will often take place under a government or directive of competent authority, and will not involve binding agreements as described in paragraph 90. An obligation exists only when there is a binding transfer agreement. Even where proposed transfers do not lead to the recognition of a provision, the planned transaction may require disclosure under other ASLBs, such as the ASLB 14, *Events after the Reporting Date*, and ASLB 20, *'Related Party Disclosures'*[8].

Restructuring Provisions

93. A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both:

- ***(a) Necessarily entailed by the restructuring; and***
- ***(b) Not associated with the ongoing activities of the entity.***

94. A restructuring provision does not include such costs as:

- (a) Retraining or relocating continuing staff; or
- (b) Investment in new systems and distribution networks.

These expenditures relate to the future conduct of an activity, and are not liabilities for restructuring at the reporting date. Such expenditures are recognised on the same basis as if they arose independently of a restructuring.

95. Identifiable future operating net deficits up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract, as defined in paragraph 18.

96. As required by paragraph 61, gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

[8] The formulation of the ASLB is under formulation.

Disclosure

97. For each class of provision, an entity should disclose:

(a) The carrying amount at the beginning and end of the period;

(b) Additional provisions made in the period, including increases to existing provisions;

(c) Amounts used (that is, incurred and charged against the provision) during the period;

(d) Unused amounts reversed during the period; and

(e) [Refer to Appendix 1]

Comparative information is not required.

98. An entity should disclose the following for each class of provision:

(a) A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential;

(b) An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity should disclose the major assumptions made concerning future events, as addressed in paragraph 58; and

(c) The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

99. Where an entity elects to recognise in its financial statements provisions for social obligations of an entity, it should make the disclosures required in paragraphs 97 and 98 in respect of those provisions.

100. Unless the possibility of any outflow in settlement is remote, an entity should disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, where practicable:

- ***(a) An estimate of its financial effect, measured under paragraphs 44 to 62;***
- ***(b) An indication of the uncertainties relating to the amount or timing of any outflow; and***
- ***(c) The possibility of any reimbursement.***

101. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfill the requirements of paragraphs 98(a) and (b) and 100(a) and (b). Thus, it may be appropriate to treat, as a single class of provision, amounts relating to one type of obligation, but it would not be appropriate to treat, as a single class, amounts relating to environmental restoration costs and amounts that are subject to legal proceedings.

102. Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 97, 98 and 100 in a way that shows the link between the provision and the contingent liability.

103. An entity may in certain circumstances use external valuation to measure a provision. In such cases, information relating to the valuation can usefully be disclosed.

104. The disclosure requirements in paragraph 100 do not apply to contingent liabilities that arise from social benefits of an entity (see paragraphs 1(a) and 7–11 for a discussion of the exclusion of social benefits from this Standard).

105. Where an inflow of economic benefits or service potential is probable, an entity should disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 44 to 62.

106. The disclosure requirements in paragraph 105 are only intended to apply to those contingent assets where there is a reasonable expectation that benefits will flow to the entity. That is, there is no requirement to disclose this information about all contingent assets (see paragraphs 39 to 43 for a discussion of contingent assets). It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of revenue arising. The contingent asset should be quantified, where a reasonable estimate of the same can be made.

107. The disclosure requirements in paragraph 105 encompass contingent assets from both exchange and non-exchange transactions. Whether a contingent asset exists in relation to taxation revenues rests on the interpretation of what constitutes a taxable event. The determination of the taxable event for taxation revenue and its possible implications for the disclosure of contingent assets related to taxation revenues are to be dealt with as a part of a separate project on non-exchange revenue.

108. Where any of the information required by paragraphs 100 and 105 is not disclosed because it is not practicable to do so, that fact should be stated.

109. In extremely rare cases, disclosure of some or all of the information required by paragraphs 97 to 107 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but should disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

Transitional Provisions

110. The effect of adopting this Standard on its effective date (or earlier) should be reported as an adjustment to the opening balance of accumulated surpluses/(deficits) for the period in which the Standard is first adopted.

111-112. [Refer to Appendix 1]

Appendix A

Provisions, Contingent Liabilities, Contingent Assets, and Reimbursements

These Tables accompany, but are not part of ASLB 19.

Provisions and Contingent Liabilities

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits or service potential in settlement of (a) a present obligation, or (b) a possible obligation 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.		
There is a present obligation that probably requires anoutflow of resources.	**There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.**	**There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.**
A provision is recognised (paragraph 22).	No provision is recognised (paragraph 35).	No provision is Recognised (paragraph 35).
Disclosures are required for the provision (paragraphs 97 and 98).	Disclosures are required for the contingent liability (paragraph 100).	No disclosure is required (paragraph 100).

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. Disclosures are required for the contingent liability.

Contingent Assets

<table>
<tr><td colspan="3">Where, as a result of past events, there is a possible asset 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.</td></tr>
<tr><td>The inflow of economic benefits or service potential is virtually certain.</td><td>The inflow of economic benefits or service potential is probable, but not virtually certain.</td><td>The inflow of economic benefits or service potential is not probable.</td></tr>
<tr><td rowspan="2">The asset is not contingent (paragraph 41).</td><td>No asset is recognised (paragraph 39).</td><td>No asset is recognised (paragraph 39).</td></tr>
<tr><td>Disclosures are required (paragraph 105).</td><td>No disclosure is required (paragraph 105).</td></tr>
</table>

Reimbursements

<table>
<tr><td colspan="3">Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.</td></tr>
<tr><td>The entity has no obligation for the part of the expenditure to be reimbursed by the other party.</td><td>The obligation for the amount expected to be reimbursed remains with the entity, and it is virtually certain that reimbursement will bereceived if the entity settles the provision.</td><td>The obligation for the amount expected to be reimbursed remains with the entity, and the reimbursement is not virtually certain if the entity settles the provision.</td></tr>
<tr><td>The entity has no liability for the amount to be reimbursed (paragraph 67).</td><td>The reimbursement is recognised as a separate asset in the balance sheet, and may be offset against the expense in the income and expenditure statement.</td><td>The expected reimbursement is not recognised as an asset (paragraph 63).</td></tr>
</table>

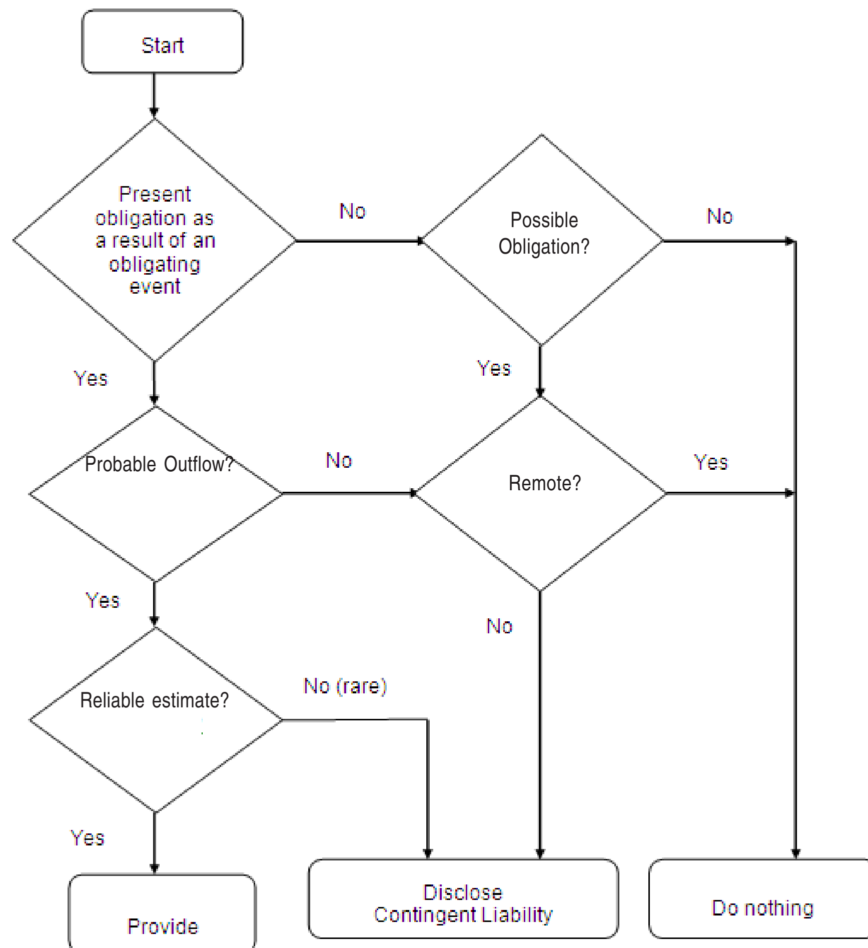
	The amount recognised for the expected reimbursement does not exceed the liability (paragraphs 63 and 64).	
No disclosure is required.	The reimbursement is disclosed, together with the amount recognised for the reimbursement (paragraph 98(c)).	The expected reimbursement is disclosed (paragraph 98(c)).

Appendix B

Illustrative Decision Tree

This decision tree accompanies, but is not part of ASLB 19.

Note: In some cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date (paragraph 23 of this Standard).



Appendix C

Implementation Guidance

This guidance accompanies, but is not part of, ASLB 19.

Recognition

IG1. All the entities in the examples have a reporting date of March 31. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples, the circumstances described may have resulted in impairment of the assets – this aspect is not dealt with in the examples.

IG2. The cross-references provided in the examples indicate paragraphs of this Standard that are particularly relevant. This guidance should be read in the context of the full text of this Standard.

IG3. [Refer to Appendix 1]

IG4. [Refer to Appendix 1]

Contaminated Land—Legislation Virtually Certain to be Enacted

IG5. A local body owns a warehouse on land near a port. The local body has retained ownership of the land because it may require the land for future expansion of its operations. For the past ten years, the property had been leased out to a group of farmers as a storage facility for agricultural chemicals. The government announces its intention to enact environmental legislation requiring property owners to accept liability for environmental pollution, including the cost of cleaning-up contaminated land. As a result, the local body introduces a hazardous chemical policy and begins applying the policy to its activities and properties. At this stage it becomes apparent that the agricultural chemicals have contaminated the land surrounding the warehouse. The local body has no recourse against the farmers or its insurance company for the clean-up costs. At March 31, 2013 it is virtually certain that a draft law requiring a clean-up of land already contaminated will be enacted shortly after the year end.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the contamination of the land because of the virtual certainty of legislation requiring the clean-up.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognised for the best estimate of the costs of the clean-up (see paragraphs 22 and 30).

Contamination and Constructive Obligation

IG6. A local body has a widely published environmental policy in which it undertakes to clean up all contamination that it causes. The local body has a record of honoring this published policy. There is no environmental legislation in place in the jurisdiction. During the course of travelling, an oil tanker vessel carrying oil is damaged and leaks a substantial amount of oil. The local body agrees to pay for the costs of the immediate clean-up.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the contamination of the environment, which gives rise to a constructive obligation because the policy and previous conduct of the local body has created a valid expectation that the local body will clean up the contamination.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognised for the best estimate of the costs of the clean-up (see paragraphs 22 and 30).

Gravel Quarry

IG7. A local body operates a gravel quarry on land that it leases on a commercial basis from a private sector company. The gravel is used for the construction and maintenance of roads. The agreement with the landowners requires the local body to restore the quarry site by removing all buildings, reshaping the land, and replacing all topsoil. 60% of the eventual restoration costs relate to the removal of the quarry buildings and restoration of the site, and 40% arise through the extraction of gravel. At the reporting date, the quarry buildings have been constructed, and excavation of the site has begun but no gravel has been extracted.

Analysis

Present obligation as a result of a past obligating event – The construction of buildings and the excavation of the quarry creates a legal obligation under the terms of the agreement to remove the buildings and restore the site, and is thus an obligating event. At the reporting date, however, there is no obligation to rectify the damage that will be caused by extraction of the gravel.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognised for the best estimate of 60% of the eventual costs that relate to the removal of the buildings and restoration of the site (see paragraph 22). These costs are included as part of the cost of the quarry. The 40% of costs that arise through the extraction of gravel are recognised as a liability progressively when the gravel is extracted.

IG8. [Refer to Appendix 1]

Discontinuation of an operation/service—No Implementation before Reporting Date

IG9. On 12 December 2012, a local body decides to discontinue the collection of octroi in a particular area within its jurisdiction which is collected through a contractor. The decision was not communicated to the contractor and others

who are affected before the reporting date (March 31, 2013), and no other steps were taken to implement the decision.

Analysis

Present obligation as a result of a past obligating event – There has been no obligating event and so there is no obligation.

Conclusion

No provision is recognised (see paragraphs 22 and 83).

Outsourcing of a Division—Implementation Before the Reporting Date

IG10.On December 12, 2012, a local body decided to outsource a division of a local body department. On December 20, 2012, a detailed plan for outsourcing the division was agreed by the local body, and redundancy notices were sent to the staff of the division.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the communication of the decision to employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be outsourced.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognised at March 31, 2013 for the best estimate of the costs of outsourcing the ward office (see paragraphs 22 and 83).

Legal Requirement to Fit Air Filters

IG11. Under new legislation, a local body is required to fit new air filters to its public buildings by 30 June 2013. The entity has not fitted the air filters.

Analysis

(a) At the reporting date of March 31, 2013

Present obligation as a result of a past obligating event – There is no obligation because there is no obligating event either for the costs of fitting air filters or for fines under the legislation.

Conclusion

No provision is recognised for the cost of fitting the filters (see paragraphs 22 and 25–27).

Analysis

(b) At the reporting date of March 31, 2014

Present obligation as a result of a past obligating event – There is still no obligation for the costs of fitting air filters because no obligating event has occurred (the fitting of the filters). However, an obligation might arise to pay fines or penalties under the legislation because the obligating event has occurred (the non-compliance of the public buildings).

An outflow of resources embodying economic benefits or service potential in settlement – Assessment of probability of incurring fines and penalties for non-compliance depends on the details of the legislation and the stringency of the enforcement regime.

Conclusion

No provision is recognised for the costs of fitting air filters. However, a provision is recognised for the best estimate of any fines and penalties that are more likely than not to be imposed (see paragraphs 22 and 25–27).

Staff Retraining as a Result of Changes in the Property Tax System

IG12. The local body introduces a number of changes to the property tax system. As a result of these changes, the local body X (reporting entity) will need to retrain a large proportion of its administrative and compliance staff in order to

ensure continued compliance with property tax regulations. At the reporting date, no retraining of staff has taken place.

Analysis

Present obligation as a result of a past obligating event – There is no obligation because no obligating event (retraining) has taken place.

Conclusion

No provision is recognised (see paragraphs 22 and 25–27).

An Onerous Contract

IG13. A hospital laundry operates from a building that the hospital (the reporting entity) has leased under an operating lease. During March 2014, the laundry relocates to a new building. The lease on the old building continues for the next four years; it cannot be canceled. The hospital has no alternative use for the building and the building cannot be re-let to another user.

Analysis

Present obligation as a result of a past obligating event – The obligating event is the signing of the lease contract, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits or service potential in settlement – When the lease becomes onerous, an outflow of resources embodying economic benefits is probable. (Until the lease becomes onerous, the hospital accounts for the lease under ASLB 13, '*Leases*').

Conclusion

A provision is recognised for the best estimate of the unavoidable lease payments (see paragraphs 13(b), 22 and 76).

A Single Guarantee

IG14.During F.Y. 2013-14, a local body gives a guarantee of certain borrowings of a private sector operator providing public services for a fee, whose financial

condition at that time is sound. During F.Y. 2013-14, the financial condition of the operator deteriorates and, at June 30, 2013, the operator files for protection from its creditors.

Analysis

(a) At March 31, 2013

Present obligation as a result of a past obligating event – The obligating event is the giving of the guarantee, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits or service potential in settlement – No outflow of benefits is probable at March 31, 2013.

Conclusion

No provision is recognised (see paragraphs 22 and 31). The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (see paragraph 100).

Analysis

(b) At March 31, 2014

Present obligation as a result of a past obligating event – The obligating event is the giving of the guarantee, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits or service potential in settlement – At March 31, 2014, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

Conclusion

A provision is recognised (see paragraphs 22 and 31).

Note: This example deals with a single guarantee. If an entity has a portfolio of similar guarantees, it will assess that portfolio as a whole in determining whether an outflow of resources embodying economic benefit is probable (see paragraph

32). Where an entity gives guarantees in exchange for a fee, revenue is recognised in accordance with ASLB 9, "*Revenue from Exchange Transactions*".

A Court Case

IG15. In a school (the reporting entity) run by local body in January 2013, ten students died, possibly as a result of food poisoning from food provided under mid-day meal scheme. Legal proceedings are started seeking damages from the entity, but it disputes liability. Up to the date of authorisation of the financial statements for the year to March 31, 2013 for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to March 31, 2014, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

Analysis

(a) At March 31, 2013

Present obligation as a result of a past obligating event – On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion

No provision is recognised by the school (see paragraphs 23 and 24). The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (paragraphs 100 and 109).

Analysis

(b) At March 31, 2014

Present obligation as a result of a past obligating event – On the basis of the evidence available, there is a present obligation.

An outflow of resources embodying economic benefits or service potential in settlement – Probable.

Conclusion

A provision is recognised for the best estimate of the amount to settle the obligation (paragraphs 22–24 and 109).

Repairs and Maintenance

IG16. Some assets require in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishment and the replacement of major components. ASLB 17, '*Property, Plant, and Equipment*', gives guidance on allocating expenditure on an asset to its component parts where these components have different useful lives or provide benefits in a different pattern.

Refurbishment Costs—No Legislative Requirement

IG17. A furnace has a lining that needs to be replaced every five years for technical reasons. At the reporting date, the lining has been in use for three years.

Analysis

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion

No provision is recognised (see paragraphs 22 and 25–27).

The cost of replacing the lining is not recognised because, at the reporting date, no obligation to replace the lining exists independently of the entity's future actions–even the intention to incur the expenditure depends on the entity deciding to continue operating the furnace or to replace the lining. Instead of a provision being recognised, the depreciation of the lining takes account of its consumption, that is, it is depreciated over five years. The re-lining costs then incurred are capitalised, with the consumption of each new lining shown by depreciation over the subsequent five years.

Refurbishment Costs—Legislative Requirement

IG18. Replacement of a major part of oil tanker is required by law to overhaul it once every three years.

Analysis

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion

No provision is recognised (see paragraphs 22 and 25–27).

The costs of overhauling oil tanker are not recognised as a provision for the same reasons as the cost of replacing the lining is not recognised as a provision in Example IG17. Even a legal requirement to overhaul does not make the costs of overhaul a liability, because no obligation exists to overhaul the oil tanker independently of the entity's future actions – the entity could avoid the future expenditure by its future actions, for example by selling the oil tanker.

Disclosures

An example of the disclosure required by paragraph 98 is given below.

IG 19. [Refer to Appendix 1]

Decommissioning Costs

IG20. In 2013, a local body - uses a waste disposal and recycling plant, recognises a provision for decommissioning costs of Rs. 100 lakhs. The provision is estimated using the assumption that decommissioning will take place in 20-30 years' time. The following information is disclosed:

A provision of Rs. 100 lakhs has been recognised for decommissioning costs. These costs are expected to be incurred between 2033 and 2043.

Disclosure Exemption

An example is given below of the disclosures required by paragraph 109 where some of the information required is not given because it can be expected to prejudice seriously the position of the entity.

IG21. A local body research agency is involved in a dispute with a company, which is alleging that the research agency has infringed copyright in its use of genetic material, and is seeking damages of Rs. 100 million. The research agency recognises a provision for its best estimate of the obligation, but discloses none of the information required by paragraphs 97 and 98 of the Standard. The following information is disclosed:

Litigation is in process against the agency relating to a dispute with a company that alleges that the agency has infringed patents, and is seeking damages of Rs. 100 million. The information usually required by ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets*', is not disclosed, on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The management is of the opinion that the claim can be successfully defended by the agency.

Disclosure of contingent asset

An example is given below of the disclosure required by paragraph 105 which requires an entity to disclose a brief description of the nature of the contingent asset at the reporting date where an inflow of the economic benefits or service potential is probable.

IG 22 A local body has filed a legal case on its supplier for liquidated damages of Rs. 1 lakh . The supplier has disagreed with the claim and is unwilling to make settlement outside court. The position was same at the reporting date i.e. March 31, 2013. Subsequently, during the March 2014, the court ruled a judgment in favour of the local body. However, the supplier has filed an appeal against the court order. Management of the local body is of the opinion that again the court order will be in its favour.

Analysis:

(a) At March 31, 2013

In this case an inflow of economic benefits is not probable.

Conclusion:

No disclosure of contingent asset is required.

Analysis:

(b) At March 31, 2014

In this case an inflow of economic benefits is probable.

Conclusion:

A disclosure of the best estimate of the amount of contingent asset is made.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 19 and the corresponding International Accounting Standard (IPSAS) 19, 'Provisions, Contingent Liabilities and Contingent Assets'

Comparison with IPSAS 19, *'Provisions, Contingent Liabilities and Contingent Assets'*

- IPSAS 19 clearly mentions provisions, contingent liabilities and contingent assets arising from insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts and those arising in relation to income taxes or income tax equivalents are excluded from the scope of this standard. However, the same has been deleted in ASLB 19.

- As per IPSAS 19, where the effect of the time value of money is material, the amount of a provision shall be discounted at a pre-tax discount rate and certain disclosures are required to be made in this regard. Whereas, ASLB 19 does not require discounting of the provisions keeping in view that the Local Bodies in India are at very initial stages of implementation of accrual basis of accounting.

- IPSAS 19 does not apply to financial instruments (including guarantees) that are within the scope of IPSAS 29, '*Financial Instruments: Recognition and measurements*' whereas ASLB 19 applies to financial instruments (including guarantees) that are not carried at fair value but excludes that are carried at fair value.

- Some examples in the Standard and in implementation guidance have been deleted and some have been modified to better address the circumstances of the local bodies. An example on disclosure of contingent assets has also been included which is not there in the corresponding IPSAS.

- Definitions of 'Obligation', 'Present Obligation' and 'Possible Obligation' have been included in ASLB 19.

- The IPSAS 19 excludes provisions, contingent liabilities and contingent assets arising from social benefits provided by an entity for which it does not receive consideration that is approximately equal to the value of goods and services provided directly in return from the recipients of those benefits from the scope of the Standard. Whereas in ASLB 19 the said exclusion has been modified as provisions, contingent liabilities and contingent assets arising from social benefits of an entity for which it does not receive any consideration or receives a nominal consideration.

- ASLB 19 uses different terminology, in certain instances, from existing IPSAS 19, for example, use of 'Statement of Income and Expenditure' in ASLB 19. The equivalent term in IPSAS 29 is 'Statement of Financial Performance'.

- In order to simplify the guidance with respect to the 'best estimate', the '*requirements of weighting all possible outcomes by their associated probabilities in case of large populations of item*' and '*considering all possible outcomes along with most likely outcome in case of a single obligation'*, have been removed from the ASLB 19.

- In IPSAS 19, under transitional provisions entities are encouraged, but not required, to (a.) adjust the opening balance of accumulated surpluses/ (deficits) for the earliest period presented, and (b.) to restate comparative information. If comparative information is not restated, this fact should be disclosed. The aforesaid transitional provisions have been deleted in ASLB 19.

- Paragraphs relating to effective date have been removed as ASLB 19 would become mandatory for Local Bodies in a state from the date specified by the State Government concerned.

- Consequential changes resulting from above departures have been made in ASLB 19. However, paragraph numbers have been retained in order to maintain consistency with IPSAS 19.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 19 and the corresponding existing AS 29, 'Provisions, Contingent Liabilities and Contingent Assets'

Major differences between Existing AS 29 and ASLB 19, '*Provisions, Contingent Liabilities and Contingent Assets'*

- The scope of ASLB 19 clarifies that it does not apply to provisions, contingent liabilities and contingent assets arising from social benefits of an entity. ASLB 19 also provides that if the entity elects to recognise provisions for social benefits, certain disclosures are required to be made. Existing AS 29 does not deal with the same.

- AS 29 excludes provisions, contingent liabilities and contingent assets arising in insurance enterprises from contracts with policy-holders from the scope of this standard. However, the said exclusion is not there in the ASLB 19 as this is not relevant in context of local bodies.

- The existing AS 29 prohibits disclosure of a contingent asset in the financial statements but the same is usually disclosed in the report of the approving authority but whereas ASLB 19 requires disclosure of contingent assets in the financial statements when an inflow of economic benefits is probable.

- Unlike the existing AS 29, ASLB 19 requires creation of provisions in respect of constructive obligation also. Consequential changes resulted from the same has also been made in the ASLB.

- ASLB 19 uses different terminology, in certain instances, from existing AS 29. For example use of 'Statement of Income and expenditure' and 'net deficit' in ASLB 19. The equivalent term in existing AS 29 is 'statement of profit and loss' and 'loss' respectively.

- ASLB 19 makes it clear that before a separate provision for an onerous contract is established, an entity should recognise any impairment loss that has occurred on assets dedicated to that contract in accordance with ASLB 17, '*Property, Plant and Equipment*'. There is no such specific

provision in the existing AS 29. The ASLB 19 also provides additional guidance on the subject.

- Examples and Implementation Guidance in the ASLB 19 are more reflective of the circumstances of the Local Bodies.

Accounting Standard for Local Bodies (ASLB) 31

Intangible Assets

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Accounting Standard for Local Bodies (ASLB) 31

Intangible Assets

(This Accounting Standard includes paragraphs set in ***bold italic*** *type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies[1]).*

The Accounting Standard for Local Bodies (ASLB) 31, '*Intangible Assets*', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned[2].

The following is the text of the Accounting Standard for Local Bodies.

Objective

1. The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets, and requires specified disclosures about intangible assets.

Scope

2. ***An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for intangible assets.***

3. ***This Standard should be applied in accounting for intangible assets, except:***

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[1] Attention is specifically drawn to paragraph 4.2 of the *'Preface to the Accounting Standards for Local Bodies'*, according to which Accounting Standards are intended to apply only to items which are material.

[2] Reference may be made to the paragraph 7.1 of the *'Preface to the Accounting Standards for Local Bodies'* providing the discussion on the compliance with the Accounting Standards for Local Bodies.

(a) Intangible assets that are within the scope of another Standard;

(b) Financial assets;[3]

(c) The recognition and measurement of exploration and evaluation of mineral resources;

(d) Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;

(e) [Refer to Appendix 1]

(f) [Refer to Appendix 1]

(g) Powers and rights conferred by legislation, the constitution, or by equivalent means;

(h) [Refer to Appendix 1]

(i) [Refer to Appendix 1]

(j) [Refer to Appendix 1]

(k) In respect of intangible heritage assets. However, the disclosure requirements of paragraphs 117–127 apply to those heritage assets that are recognised.

4. ***This Standard applies to all entities described as local bodies in the Preface to the Accounting Standards for Local Bodies[4].***

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[3] A financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right: (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and is: (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

[4] Refer paragraph 1.3 of the *'Preface to the Accounting Standards for Local Bodies'.*

5. **[Refer to Appendix 1]**

6. If another ASLB prescribes the accounting for a specific type of intangible asset, an entity applies that ASLB instead of this Standard. For example, this Standard does not apply to:

   (a) Intangible assets held by an entity for sale in the ordinary course of operations (see ASLB 11, '*Construction Contracts*', and ASLB 12, '*Inventories*');

   (b) Leases that are within the scope of ASLB on, '*Leases*'[5];

   (c) Assets arising from employee benefits (see ASLB on, '*Employee Benefits*'[6]); and

   (d) The recognition and measurement of some financial assets are covered by ASLB on, '*Consolidated and Separate Financial Statements*', ASLB on, '*Investments in Associates*', and ASLB on, '*Interests in Joint Ventures*'[7]; and

   (e) Recognition and initial measurement of service concession assets that are within the scope of ASLB on, '*Service Concession Arrangements: Grantor*'[8]. However, this standard applies to the subsequent measurement and disclosure of such assets.

7. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a licence or patent), or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under ASLB 17, '*Property, Plant, and Equipment'*, or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant. For example, if the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

8. This Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development

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[5] The Accounting Standard for Local Bodies is under preparation.
[6] The Accounting Standard for Local Bodies is under preparation.
[7] The Accounting Standards for Local Bodies are under preparation.
[8] The Accounting Standard for Local Bodies is under preparation.

of knowledge. Therefore, although these activities may result in an asset with physical substance (e.g., a prototype), the physical element of the asset is secondary to its intangible component, i.e., the knowledge embodied in it.

9. In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard. Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents, and copyrights are excluded from the scope of ASLB on '*Leases*' and are within the scope of this Standard.

10. Exclusions from the scope of a Standard may occur if activities or transactions are so specialised that they give rise to accounting issues that may need to be dealt with in a different way. Such issues arise in the accounting for extractive activities such as expenditure on the exploration for, or development and extraction of, mineral deposits. Therefore, this Standard does not apply to expenditure on such activities by the Local Bodies.

Intangible Heritage Assets

11. This Standard does not require an entity to recognise intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If an entity does recognise intangible heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.

12. Some intangible assets are described as intangible heritage assets because of their cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events or collectible coins. Certain characteristics, including the following, are often displayed by intangible heritage assets (although these characteristics are not exclusive to such assets):

    (a) Their value in cultural, environmental, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

(b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

(c) Their value may increase over time; and

(d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

13. Local Bodies may have large holdings of intangible heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest, and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

14. Some intangible heritage assets have future economic benefits or service potential other than their heritage value, for example, royalties paid to the entity for use of an historical recording. In these cases, an intangible heritage asset may be recognised and measured on the same basis as other items of cash-generating intangible assets. For other intangible heritage assets, their future economic benefit or service potential is limited to their heritage characteristics. The existence of both future economic benefits and service potential can affect the choice of measurement base.

15. The disclosure requirements in paragraphs 117–124 require entities to make disclosures about recognised intangible assets. Therefore, entities that recognise intangible heritage assets are required to disclose in respect of those assets such matters as, for example:

    (a) The measurement basis used;

    (b) The amortisation method used, if any;

    (c) The gross carrying amount;

    (d) The accumulated amortisation at the end of the period, if any; and

    (e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Definitions

16. ***The following terms are used in this Standard with the meanings specified:***

    An active market is a market where all the following conditions exist:

    (a) the items traded within the market are homogeneous;

    (b) willing buyers and sellers can normally be found at any time; and

    (c) prices are available to the public.

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

    Carrying amount is the amount at which an asset is recognised in the balance sheet, net of any accumulated amortisation and accumulated impairment losses thereon.

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

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

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

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

    An intangible asset is an identifiable non-monetary asset without physical substance.

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

    Non-monetary assets are assets other than monetary assets.

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

***Residual value** is the amount which an entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.*

***Useful life** is either:*

(a) the period of time over which an asset is expected to be used by the entity; or

(b) the number of production or similar units expected to be obtained from the asset by the entity.

Intangible Assets

17. Entities may expend resources, or incur liabilities, on the acquisition, development, maintenance, or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes, or systems, licences, intellectual property, and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, and right to use water resource etc.

18. Not all the items described in paragraph 17 meet the definition of an intangible asset, i.e., identifiability, control over a resource, and existence of future economic benefits or service potential. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred.

19. ***An asset is identifiable if it either:***

    (a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

    (b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those

rights are transferable or separable from the entity or from other rights and obligations.

20. For the purposes of this Standard, a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Control of an Asset

21. An entity controls an asset if the entity has the power to obtain the future economic benefits or service potential flowing from the underlying resource and to restrict the access of others to those benefits or that service potential. The capacity of an entity to control the future economic benefits or service potential from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits or service potential in some other way.

22. Scientific or technical knowledge may give rise to future economic benefits or service potential. An entity controls those benefits or that service potential if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted), or by a legal duty on employees to maintain confidentiality.

23. An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits or service potential from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits or service potential arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits or service potential expected from it, and it also meets the other parts of the definition.

24. An entity may have a portfolio of users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with users of its services, those users will continue to use its services. However, in the absence of legal rights to protect, or other ways to control the relationships with users of a service or the loyalty of those users, the entity usually has insufficient control over the expected economic benefits or service potential from relationships with users of a service and loyalty for such items (e.g., portfolio of users of a service, market shares or success rates of a service, relationships with, and loyalty of, users of a service) to meet the definition of an intangible assets.

Future Economic Benefits or Service Potential

25. The future economic benefits or service potential flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production or service process may reduce future production or service costs or improve service delivery rather than increase future revenues (e.g., an on-line system that allows citizens to operate transactions more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed of processing).

Recognition and Measurement

26. The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

    (a) The definition of an intangible asset (see paragraphs 17–25); and

    (b) The recognition criteria (see paragraphs 28–30).

    This requirement applies to the cost measured at recognition (the cost in an exchange transaction or to internally generate an intangible asset, or the nominal value of an intangible asset acquired through a non-exchange transaction) and those incurred subsequently to add to, replace part of, or service it.

27. The nature of intangible assets is such that, in many cases, there are no additions to such an asset or replacements of part of it.

Accordingly, most subsequent expenditures are likely to maintain the expected future economic benefits or service potential embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria in this Standard. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the entity's operations as a whole. Therefore, only rarely will subsequent expenditure—expenditure incurred after the initial recognition of an acquired intangible asset or after completion of an internally generated intangible asset be recognised in the carrying amount of an asset. Consistent with paragraph 61, subsequent expenditure on brands, mastheads, publishing titles, lists users of a service, and items similar in substance (whether externally acquired or internally generated) is always recognised in the income and expenditure statement. This is because such expenditure cannot be distinguished from expenditure to develop the entity's operations as a whole.

28. ***An intangible asset should be recognised if, and only if:***

    (a) It is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and

    (b) The cost of the asset can be measured reliably.

29. ***An entity should assess the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.***

30. An entity uses judgement to assess the degree of certainty attached to the flow of future economic benefits or service potential that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.

31. ***An intangible asset should be measured initially at cost in accordance with paragraphs 32–43. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition, should be measured at its nominal value as at that date.***

Separate Acquisition

32. Normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 28(a) is always considered to be satisfied for separately acquired intangible assets.

33. In addition, the cost of a separately acquired intangible asset can usually be measured reliably. This is particularly so when the purchase consideration is in the form of cash or other monetary assets.

34. The cost of a separately acquired intangible asset comprises:

    (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

    (b) Any directly attributable cost of preparing the asset for its intended use.

35. Examples of directly attributable costs are:

    (a) Costs of employee benefits (as defined in ASLB on '*Employee Benefits*') arising directly from bringing the asset to its working condition;

    (b) Professional fees arising directly from bringing the asset to its working condition; and

    (c) Costs of testing whether the asset is functioning properly.

36. Examples of expenditures that are not part of the cost of an intangible asset are:

    (a) Costs of introducing a new product or service (including costs of advertising and promotional activities);

    (b) Costs of conducting operations in a new location or with a new class of users of a service (including costs of staff training); and

    (c) Administration and other general overhead costs.

37. Recognition of costs in the carrying amount of an intangible asset ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an intangible asset are not included in the carrying amount of that asset. For example, the following costs are not included in the carrying amount of an intangible asset:

    (a) Costs incurred while an asset capable of operating in the manner intended by management has yet to be brought into use; and

    (b) Initial operating deficits, such as those incurred while demand for the asset's output builds up.

38. Some operations occur in connection with the development of an intangible asset, but are not necessary to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the development activities. Because incidental operations are not necessary to bring an asset to the condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognised immediately in the income and expenditure statement, and included in their respective classifications of revenue and expense.

39. If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit unless it is capitalised in accordance with the capitalisation treatment permitted in ASLB 5, *'Borrowing Costs'*.

Subsequent Expenditure on an Acquired In-process Research and Development Project

40. ***Research or development expenditure that:***

    (a) Relates to an in-process research or development project acquired separately and recognised as an intangible asset; and

    (b) Is incurred after the acquisition of that project;

should be accounted for in accordance with paragraphs 52–60.

41. Applying the requirements in paragraphs 52–60 means that subsequent expenditure on an in-process research or development project acquired separately and recognised as an intangible asset is:

    (a) Recognised as an expense when incurred if it is research expenditure;

    (b) Recognised as an expense when incurred if it is development expenditure that does not satisfy the criteria for recognition as an intangible asset in paragraph 55; and

    (c) Added to the carrying amount of the acquired in-process research or development project if it is development expenditure that satisfies the recognition criteria in paragraph 55.

Intangible Assets Acquired through Non-Exchange Transactions

42. In some cases, an intangible asset may be acquired through a non-exchange transaction. This may happen when a local body transfers to another local body in a non-exchange transaction, intangible assets such as, any licence or rights to access or a private citizen, for example a Nobel Prize winner, may bequeath his or her personal papers, including the copyright to his or her publications to the archives of a local body in a non-exchange transaction.

43. Under these circumstances the cost of the item is the nominal value.

Exchanges of Assets

44. One or more intangible assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-

monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an intangible asset is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. An alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, is to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.

45. [Refer to Appendix 1]

Internally Generated Goodwill

46. ***Internally generated goodwill should not be recognised as an asset.***

47. In some cases, expenditure is incurred to generate future economic benefits or service potential, but it does not result in the creation of an intangible asset that meets the recognition criteria in this Standard. Such expenditure is often described as contributing to internally generated goodwill. Internally generated goodwill is not recognised as an asset because it is not an identifiable resource (i.e., it is not separable nor does it arise from binding arrangements (including rights from contracts or other legal rights) controlled by the entity that can be measured reliably at cost.

48. Differences between the market value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.

Internally Generated Intangible Assets

49. It is sometimes difficult to assess whether an internally generated intangible asset qualifies for recognition because of problems in:

    (a) Identifying whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and

(b) Determining the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the entity's internally generated goodwill or of running day-to-day operations.

Therefore, in addition to complying with the general requirements for the recognition and initial measurement of an intangible asset, an entity applies the requirements and guidance in paragraphs 50–65 to all internally generated intangible assets.

50. To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

    (a) A research phase; and

    (b) A development phase.

    Although the terms "research" and "development" are defined, the terms "research phase" and "development phase" have a broader meaning for the purpose of this Standard.

51. If an entity cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the entity treats the expenditure on that project as if it were incurred in the research phase only.

Research Phase

52. ***No intangible asset arising from research (or from the research phase of an internal project) should be recognised. Expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred.***

53. In the research phase of an internal project, an entity cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential. Therefore, this expenditure is recognised as an expense when it is incurred.

54. Examples of research activities are:

    (a) Activities aimed at obtaining new knowledge;

(b) The search for, evaluation and final selection of, applications of research findings or other knowledge;

(c) The search for alternatives for materials, devices, products, processes, systems, or services; and

(d) The formulation, design, evaluation, and final selection of possible alternatives for new or improved materials, devices, products, processes, systems, or services.

Development Phase

55. ***An intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an entity can demonstrate all of the following:***

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) Its intention to complete the intangible asset and use or sell it;

(c) Its ability to use or sell the intangible asset;

(d) How the intangible asset will generate probable future economic benefits or service potential. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

56. In the development phase of an internal project, an entity can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits or service potential. This is because the development phase of a project is further advanced than the research phase.

57. Examples of development activities are:

    (a) The design, construction, and testing of pre-production or pre-use prototypes and models;

    (b) The design of tools, jigs, moulds, and dies involving new technology;

    (c) The design, construction, and operation of a pilot plant or operation that is not of a scale economically feasible for commercial production or use in providing services;

    (d) The design, construction, and testing of a chosen alternative for new or improved materials, devices, products, processes, systems, or services; and

    (e) Website costs and software development costs.

58. To demonstrate how an intangible asset will generate probable future economic benefits or service potential, an entity assesses the future economic benefits or service potential to be received from the asset using the principles in either ASLB on '*Impairment of Non-Cash-Generating Assets*' or ASLB on '*Impairment of Cash-Generating Assets*',[9] as appropriate. If the asset will generate economic benefits or service potential only in combination with other assets, the entity applies the concept of cash-generating units in ASLB on '*Impairment of Cash-Generating Assets*'.

59. Availability of resources to complete, use, and obtain the benefits from an intangible asset can be demonstrated by, for example, an operating plan showing the technical, financial, and other resources needed and the entity's ability to secure those resources. In some cases, an entity demonstrates the availability of external finance by obtaining a lender's or funder's indication of its willingness to fund the plan.

60. An entity's costing systems can often measure reliably the cost of generating an intangible asset internally, such as salary and other expenditure incurred in securing logos, copyrights or licences, or developing computer software.

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[9] The Accounting Standards for Local Bodies are under preparation.

61. ***Internally generated brands, mastheads, publishing titles, and items similar in substance should not be recognised as intangible assets.***

62. Expenditure on internally generated brands, mastheads, publishing titles, and items similar in substance cannot be distinguished from the cost of developing the entity's operations as a whole. Therefore, such items are not recognised as intangible assets.

Cost of an Internally Generated Intangible Asset

63. The cost of an internally generated intangible asset for the purpose of paragraph 31 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 28, 29, and 55. Paragraph 70 prohibits reinstatement of expenditure previously recognised as an expense.

64. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare asset ready for intended use. Examples of directly attributable costs are:

    (a) Costs of materials and services used or consumed in generating the intangible asset;

    (b) Costs of employee benefits (as defined in ASLB on '*Employee Benefits*') arising from the generation of the intangible asset;

    (c) Fees to register a legal right; and

    (d) Amortisation of patents and licenses that are used to generate the intangible asset.

    ASLB on *'Borrowing Costs'* specifies criteria for the recognition of interest as an element of the cost of an asset that is a qualifying asset.

65. The following are not components of the cost of an internally generated intangible asset:

    (a) Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;

    (b) Identified inefficiencies and initial operating deficits incurred before the asset achieves planned performance; and

(c) Expenditure on training staff to operate the asset.

Recognition of an Expense

66. ***Expenditure on an intangible item should be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 26–65).***

67. In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In the case of the supply of goods, the entity recognises such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognises the expenditure as an expense when it receives the services. For example, expenditure on research is recognised as an expense when it is incurred (see paragraph 52). Other examples of expenditure that is recognised as an expense when it is incurred include:

(a) Expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant, and equipment in accordance with ASLB 17. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e., pre-opening costs), or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);

(b) Expenditure on training activities;

(c) Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets); and

(d) Expenditure on relocating or reorganising part or all of an entity.

68. An entity has a right to access goods when it owns them. Similarly, it has a right to access goods when they have been constructed by a supplier in accordance with the terms of a supply contract and the entity could demand delivery of them in return for payment. Services are received when they are performed by a supplier in accordance with a contract to deliver them to the entity and not when the entity

uses them to deliver another service, for example, to deliver information about a service to users of that service.

69. Paragraph 66 does not preclude an entity from recognising a prepayment as an asset when payment for goods has been made in advance of the entity obtaining a right to access those goods. Similarly, paragraph 66 does not preclude an entity from recognising a prepayment as an asset when payment for services has been made in advance of the entity receiving those services.

Past Expenses not to be Recognised as an Asset

70. ***Expenditure on an intangible item that was initially recognised as an expense under this Standard should not be recognised as part of the cost of an intangible asset at a later date.***

Subsequent Measurement

71-72. [Refer to Appendix 1]

73. After initial recognition, an intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

74-86. [Refer to Appendix 1]

Useful Life

87-88. [Refer to Appendix 1]

89. There is a rebuttable presumption that the useful life of an intangible asset will not exceed 10 years from the date when the asset is available for use. Many factors are considered in determining the useful life of an intangible asset, including:

    (a) The expected usage of the asset by the entity and whether the asset could be managed efficiently by another management team;

    (b) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;

    (c) Technical, technological, commercial, or other types of obsolescence;

(d) The stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;

(e) Expected actions by competitors or potential competitors;

(f) The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level;

(g) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and

(h) Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

90. [Refer to Appendix 1]

91. Given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short.

91A. Estimates of the useful life of an intangible asset generally become less reliable as the length of the useful life increases. This Standard adopts a presumption that the useful life of intangible assets is unlikely to exceed ten years. However, in some cases, there may be persuasive evidence that the useful life of an intangible asset will be a specific period longer than ten years. In these cases, the presumption that the useful life generally does not exceed ten years is rebutted and the entity:

(a) Amortises the intangible asset over the best estimate of its useful life;

(b) Estimates the recoverable amount of the intangible asset at annually in order to identify any impairment loss;

(c) Disclose the reasons why the presumption is rebutted and the factor(s) that played a significant role in determining the useful life of the asset.

> **Example:** An entity has incurred expense for acquiring a right to use a technology to generate energy from bio-degrading garbage waste for a period of 25 years. It is expected that this right will be used for a period of 25 years.
>
> *The entity should amortise the right over the period of 25 years, unless there is evidence that its useful life is shorter.*

92. The useful life of an intangible asset may be very long but it is always finite. Uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short.

93. ***The useful life of an intangible asset that arises from binding arrangements (including rights from contracts or other legal rights) should not exceed the period of the binding arrangement (including rights from contracts or ther legal rights), but may be shorter depending on the period over which the entity expects to use the asset. If the binding arrangements (including rights from contracts or other legal rights) are conveyed for a limited term that can be renewed, the useful life of the intangible asset should include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.***

94. There may be economic, political, social, and legal factors influencing the useful life of an intangible asset. Economic, political, or social factors determine the period over which future economic benefits or service potential will be received by the entity. Legal factors may restrict the period over which the entity controls access to such economic benefits or service potential. The useful life is the shorter of the periods determined by these factors.

95. Existence of the following factors, among others, indicates that an entity would be able to renew the binding arrangements (including rights from contracts or other legal rights) without significant cost:

    (a) There is evidence, possibly based on experience, that the binding arrangements (including rights from contracts or other legal rights) will be renewed. If renewal is contingent upon the consent of a third party, this includes evidence that the third party will give its consent;

(b) There is evidence that any conditions necessary to obtain renewal will be satisfied; and

(c) The cost to the entity of renewal is not significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal.

If the cost of renewal is significant when compared with the future economic benefits or service potential expected to flow to the entity from renewal, the "renewal cost" represents, in substance, the cost to acquire a new intangible asset at the renewal date.

Amortisation

Amortisation Period and Amortisation Method

96. ***The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. Amortisation should begin when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortisation method used should reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method should be used. The amortisation charge for each period should be recognised the income and expenditure statement unless this or another Standard permits or requires it to be included in the carrying amount of another asset.***

97. A variety of amortisation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the unit of production method. The method used is selected on the basis of the expected pattern of consumption of the expected future economic benefits or service potential embodied in the asset and is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

98. Amortisation is usually recognised in the income and expenditure statement. However, sometimes the future economic benefits or

service potential embodied in an asset are absorbed in producing other assets. In this case, the amortisation charge constitutes part of the cost of the other asset and is included in its carrying amount. For example, the amortisation of intangible assets used in a production process is included in the carrying amount of inventories (see ASLB 12).

Residual Value

99. ***The residual value of an intangible asset should be assumed to be zero unless:***

- ***(a) There is a commitment by a third party to acquire the asset at the end of its useful life; or***
- ***(b) There is an active market for the asset, and:***
  - ***(i) Residual value can be determined by reference to that market; and***
  - ***(ii) It is probable that such a market will exist at the end of the asset's useful life.***

100. The depreciable amount of an asset is determined after deducting its residual value. A residual value other than zero implies that an entity expects to dispose of the intangible asset before the end of its economic life.

101. An estimate of an asset's residual value is based on the amount recoverable from disposal using prices prevailing at the date of the estimate for the sale of a similar asset that has reached the end of its useful life and has operated under conditions similar to those in which the asset will be used. The residual value is reviewed at least at each reporting date. A change in the asset's residual value is accounted for as a change in an accounting estimate in accordance with ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

102. The residual value of an intangible asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's amortisation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Review of Amortisation Period and Amortisation Method

103. ***The amortisation period and the amortisation method for an intangible asset should be reviewed at least at each reporting date. If the expected useful life of the asset is different from previous estimates, the amortisation period should be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method should be changed to reflect the changed pattern. Such changes should be accounted for as changes in accounting estimates in accordance with ASLB 3, 'Accounting Policies, Changes in Accounting Estimates and Errors'.***

104. During the life of an intangible asset, it may become apparent that the estimate of its useful life is inappropriate. For example, the recognition of an impairment loss may indicate that the amortisation period needs to be changed.

105. Over time, the pattern of future economic benefits or service potential expected to flow to an entity from an intangible asset may change. For example, it may become apparent that a diminishing balance method of amortisation is appropriate rather than a straight-line method. Another example is if use of the rights represented by a licence is deferred pending action on other components of the entity's strategic plan. In this case, economic benefits or service potential that flow from the asset may not be received until later periods.

106-109. [Refer to Appendix1]

Recoverability of the Carrying Amount—Impairment Losses

110. To determine whether an intangible asset measured under the cost model is impaired, an entity applies either ASLB on, *'Impairment of Non-Cash-Generating Assets'* or ASLB on, *'Impairment of Cash-Generating Assets*', as appropriate. Those Standards explain when and how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, as appropriate, and when it recognises or reverses an impairment loss.

Retirements and Disposals

111. An Intangible asset should be derecognised:

    (a) On disposal (including disposal through a non-exchange transaction); or

    (b) When no future economic benefits or service potential are expected from its use or disposal.

112. Gains or losses arising from the retirement or disposal of an intangible asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and should be recognised as income or expense in the income and expenditure statement.

113. The disposal of an intangible asset may occur in a variety of ways (e.g., by sale, by entering into a finance lease, or through a non-exchange transaction). In determining the date of disposal of such an asset, an entity applies the criteria in ASLB 9, '*Revenue from Exchange Transactions*' for recognising revenue from the sale of goods. ASLB on '*Leases*' applies to disposal by a sale and leaseback.

114. An intangible asset that is retired from active use and held for disposal is carried at its carrying amount at the date when the asset is retired from active use. At least at each reporting date, an enterprise tests the asset for impairment, an entity applies either ASLB on *'Impairment of Non-Cash-Generating Assets'* or ASLB on *'Impairment of Cash-Generating Assets'*, as appropriate, and recognises any impairment loss accordingly.

115. The consideration receivable on disposal of an intangible asset should be recognised at the contracted amount. However, if payment for the intangible asset is deferred and the same involves a financing arrangement, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with ASLB 9 reflecting the effective yield on the receivable.

116. [Refer to Appendix 1]

Disclosure

General

117. ***An entity should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:***

    (a) ***Useful lives and amortisation rate used;***

    (b) ***The amortisation methods used;***

    (c) ***The gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;***

    (d) ***The line item(s) of the income and expenditure statement in which any amortisation of intangible assets is included;***

    (e) ***A reconciliation of the carrying amount at the beginning and end of the period showing:***

        (i) ***Additions, indicating separately those from internal development and those acquired separately;***

        (ii) ***Retirements and disposals;***

        (iii) ***Impairment losses recognised in the income and expenditure statement during the period in accordance with the relevant ASLBs (if any);***

        (iv) ***Impairment losses reversed in the income and expenditure statement during the period in accordance with the relevant ASLBs (if any);***

        (v) ***Any amortisation recognised during the period;and***

        (vi) ***Other changes in the carrying amount during the period.***

118. A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:

    (a) Brand names;

    (b) Mastheads and publishing titles;

(c) Computer software;

(d) Licences;

(e) Copyrights, patents, and other industrial property rights, service, and operating rights;

(f) Recipes, formulae, models, designs, and prototypes; and

(g) Intangible assets under development.

The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.

119. An entity discloses information on impaired intangible assets in accordance with the relevant ASLBs in addition to the information required by paragraph 117(e)(iii)–(iv).

120. ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*' requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:

(a) The assessment of an intangible asset's useful life;

(b) The amortisation method; or

(c) Residual values.

121-124. [Refer to Appendix 1]

Research and Development Expenditure

125. ***An entity should disclose the aggregate amount of research and development expenditure recognised as an expense during the period.***

126. Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 64 and 65 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 125).

Other Information

127. An entity may disclose the additional information regarding description of any fully amortised intangible asset that is still in use.

128. [Refer to Appendix 1]

129. [Refer to Appendix 1]

130. [Refer to Appendix 1]

Appendix A

This appendix which is illustrative and does not form part of the Accounting Standard for Local Bodies provides illustrative application of the principles laid down in the Standard to internal use software and web-site costs. Its purpose is to illustrate the application of the Accounting Standard for Local Bodies to assist in clarifying its meaning.

I. Illustrative Application of the Accounting Standard for Local Bodies to Internal Use Computer Software

Computer software for internal use can be internally generated or acquired.

Internally Generated Computer Software

1. Internally generated computer software for internal use is developed or modified internally by the entity solely to meet the needs of the entity and at no stage it is planned to sell it.

2. The stages of development of internally generated software may be categorised into the following two phases:
   - Preliminary project stage, i.e., the research phase
   - Development stage

Preliminary project stage

3. At the preliminary project stage the internally generated software should not be recognised as an asset. Expenditure incurred in the preliminary project stage should be recognised as an expense when it is incurred. The reason for such a treatment is that at this stage of the software project an entity can not demonstrate that an asset exists from which future economic benefits or service potential are probable.

4. When a computer software project is in the preliminary project stage, entities are likely to:
   a) Make strategic decisions to allocate resources between alternative projects at a given point in time. For example, should programmers develop a new payroll system or direct their efforts toward correcting existing problems in an operating payroll system.

(b) Determine the performance requirements (that is, what it is that they need the software to do) and systems requirements for the computer software project it has proposed to undertake.

(c) Explore alternative means of achieving specified performance requirements. For example, should an entity make or buy the software. Should the software run on a mainframe or a client server system.

(d) Determine that the technology needed to achieve performance requirements exists.

(e) Select a consultant to assist in the development and/or installation of the software.

Development Stage

5. An internally generated software arising at the development stage should be recognised as an asset if, and only if, an entity can demonstrate all of the following:

   (a) the technical feasibility of completing the internally generated software so that it will be available for internal use;

   (b) the intention of the entity to complete the internally generated software and use it to perform the functions intended. For example, the intention to complete the internally generated software can be demonstrated if the entity commits to the funding of the software project;

   (c) the ability of the entity to use the software;

   (d) how the software will generate probable future economic benefits or service potential. Among other things, the entity should demonstrate the usefulness of the software;

   (e) the availability of adequate technical, financial and other resources to complete the development and to use the software; and

   (f) the ability of the entity to reliably measure the expenditure attributable to the software during its development.

6. Examples of development activities in respect of internally generated software include:

(a) Design including detailed program design - which is the process of detail design of computer software that takes product function, feature, and technical requirements to their most detailed, logical form and is ready for coding.

(b) Coding which includes generating detailed instructions in a computer language to carry out the requirements described in the detail program design. The coding of computer software may begin prior to, concurrent with, or subsequent to the completion of the detail program design.

At the end of these stages of the development activity, the entity has a working model, which is an operative version of the computer software capable of performing all the major planned functions, and is ready for initial testing ("beta" versions).

(c) Testing which is the process of performing the steps necessary to determine whether the coded computer software product meets function, feature, and technical performance requirements set forth in the product design.

At the end of the testing process, the entity has a master version of the internal use software, which is a completed version together with the related user documentation and the training materials.

Cost of internally generated software

7. The cost of an internally generated software is the sum of the expenditure incurred from the time when the software first met the recognition criteria for an intangible asset as stated in paragraphs 28 and 29 of this Standard and paragraph 5 above. An expenditure which did not meet the recognition criteria as aforesaid and expensed in an earlier financial statements should not be reinstated if the recognition criteria are met later.

8. The cost of an internally generated software comprises all expenditure that can be directly attributed or allocated on a reasonable and consistent basis to create the software for its intended use. The cost include:

   (a) expenditure on materials and services used or consumed in developing the software;

(b) the salaries, wages and other employment related costs of personnel directly engaged in developing the software;

(c) any expenditure that is directly attributable to generating software; and

(d) overheads that are necessary to generate the software and that can be allocated on a reasonable and consistent basis to the software (For example, an allocation of the depreciation of fixed assets, insurance premium and rent). Allocation of overheads are made on basis similar to those used in allocating the overhead to inventories.

9. The following are not components of the cost of an internally generated software:

(a) selling, administration and other general overhead expenditure unless this expenditure can be directly attributable to the development of the software;

(b) identified inefficiencies and initial operating deficits incurred before software achieves the planned performance; and

(c) expenditure on training the staff to use the internally generated software.

Software Acquired for Internal Use

10. The cost of a software acquired for internal use should be recognised as an asset if it meets the recognition criteria prescribed in paragraphs 28 and 29 of this Standard.

11. The cost of a software purchased for internal use comprises its purchase price, including any import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities) and any directly attributable expenditure on making the software ready for its use. Any trade discounts and rebates are deducted in arriving at the cost. In the determination of cost, matters stated in paragraphs 32-39 of the Standard need to be considered, as appropriate.

Subsequent expenditure

12. Entities may incur considerable cost in modifying existing software systems. Subsequent expenditure on software after its purchase or its

completion should be recognised as an expense when it is incurred unless:

(a) it is probable that the expenditure will enable the software to generate future economic benefits or service potential in excess of its originally assessed standards of performance; and

(b) the expenditure can be measured and attributed to the software reliably.

If these conditions are met, the subsequent expenditure should be added to the carrying amount of the software. Costs incurred in order to restore or maintain the future economic benefits or service potential that an entity can expect from the originally assessed standard of performance of existing software systems is recognised as an expense when, and only when, the restoration or maintenance work is carried out.

Amortisation period

13. The depreciable amount of a software should be allocated on a systematic basis over the best estimate of its useful life. The amortisation should commence when the software is available for use.

14. As per this Standard, there is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. However, given the history of rapid changes in technology, computer software is susceptible to technological obsolescence. Therefore, it is likely that useful life of the software will be much shorter, say 3 to 5 years.

Amortisation method

15. The amortisation method used should reflect the pattern in which the software's economic benefits or service potential are consumed by the entity. If that pattern can not be determined reliably, the straight-line method should be used. The amortisation charge for each period should be recognised in the income and expenditure statement unless another ASLB permits or requires it to be included in the carrying amount of another asset. For example, the amortisation of a software used in a production process is included in the carrying amount of inventories.

II. Illustrative Application of the Accounting Standard for Local Bodies to Web-Site Costs

1. An entity may incur internal expenditures when developing, enhancing and maintaining its own web site. The web site may be used for various purposes such as promoting and advertising products and services, providing electronic services, and selling products and services.

2. The stages of a web site's development can be described as follows:

   (a) Planning - includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences;

   (b) Application and Infrastructure Development - includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing; and

   (c) Graphical Design and Content Development - includes designing the appearance of web pages and creating, purchasing, preparing and uploading information, either textual or graphical in nature, on the web site prior to the web site becoming available for use. This information may either be stored in separate databases that are integrated into (or accessed from) the web site or coded directly into the web pages.

3. Once development of a web site has been completed and the web site is available for use, the web site commences an operating stage. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the web site.

4. The expenditures for purchasing, developing, maintaining and enhancing hardware (e.g., web servers, staging servers, production servers and Internet connections) related to a web site are not accounted for under this Standard but are accounted for under ASLB 17, '*Property, Plant & Equipment*'. Additionally, when an entity incurs an expenditure for having an Internet service provider host the entity's web site on it's own servers connected to the Internet, the expenditure is recognised as an expense.

5. An intangible asset is defined in paragraph 16 of this Standard as an identifiable non-monetary asset, without physical substance. Paragraph 17 of this Standard provides computer software as a common example of an intangible asset. By analogy, a web site is another example of an intangible asset. Accordingly, a web site developed by an entity for its own use is an internally generated intangible asset that is subject to the requirements of this Standard.

6. An entity should apply the requirements of this Standard to an internal expenditure for developing, enhancing and maintaining its own web site. Paragraph 66 of this Standard provides expenditure on an intangible item to be recognised as an expense when incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria in paragraphs 26-65 of the Standard. Paragraph 67 of the Standard requires expenditure on start-up activities to be recognised as an expense when incurred. Developing a web site by an entity for its own use is not a start-up activity to the extent that an internally generated intangible asset is created. An entity applies the requirements and guidance in paragraphs 49-65 of this Standard to an expenditure incurred for developing its own web site in addition to the general requirements for recognition and initial measurement of an intangible asset. The cost of a web site, as described in paragraphs 63-65 of this Standard, comprises all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis, to creating, producing and preparing the asset for its intended use.

   The entity should evaluate the nature of each activity for which an expenditure is incurred (e.g., training employees and maintaining the web site) and the web site's stage of development or post-development:

   (a) Paragraph 52 of this Standard requires an expenditure on research (or on the research phase of an internal project) to be recognised as an expense when incurred. The examples provided in paragraph 54 of this Standard are similar to the activities undertaken in the Planning stage of a web site's development. Consequently, expenditures incurred in the Planning stage of a web site's development are recognised as an expense when incurred.

   (b) Paragraph 55 of this Standard requires an intangible asset

arising from the development phase of an internal project to be recognised if an entity can demonstrate fulfillment of the six criteria specified. Application and Infrastructure Development and Graphical Design and Content Development stages are similar in nature to the development phase. Therefore, expenditures incurred in these stages should be recognised as an intangible asset if, and only if, in addition to complying with the general requirements for recognition and initial measurement of an intangible asset, an entity can demonstrate those items described in paragraph 44 of this Standard. In addition,

(i) an entity may be able to demonstrate how its web site will generate probable future economic benefits or service potential under paragraph 55(d) by using the principles in ASLB on '*Impairment of Non-Cash-Generating Assets*' or ASLB on '*Impairment of Cash-Generating Assets*'.

(ii) an entity may incur an expenditure to enable use of content, which had been purchased or created for another purpose, on its web site (e.g., acquiring a license to reproduce information) or may purchase or create content specifically for use on its web site prior to the web site becoming available for use. In such circumstances, an entity should determine whether a separate asset, is identifiable with respect to such content (e.g., copyrights and licenses), and if a separate asset is not identifiable, then the expenditure should be included in the cost of developing the web site when the expenditure meets the conditions in paragraph 55 of this Standard. As per paragraph 28 of this Standard, an intangible asset is recognised if, and only if, it meets specified criteria, including the definition of an intangible asset. Paragraph 63 indicates that the cost of an internally generated intangible asset is the sum of expenditure incurred from the time when the intangible asset first meets the specified recognition criteria. When an entity acquires or creates content, it may be possible to identify an intangible asset (e.g., a license or a copyright) separate

from a web site. Consequently, an entity determines whether an expenditure to enable use of content, which had been created for another purpose, on its web site becoming available for use results in a separate identifiable asset or the expenditure is included in the cost of developing the web site.

(c) the operating stage commences once the web site is available for use, and therefore an expenditure to maintain or enhance the web site after development has been completed should be recognised as an expense when it is incurred unless it meets the criteria in paragraph 28 of the Standard.

7. An intangible asset is measured subsequent to initial recognition by applying the requirements in paragraph 73 of this Standard. Additionally, since paragraph 92 of the Standard states that an intangible asset always has a finite useful life, a web site that is recognised as an asset is amortised over the best estimate of its useful life. As indicated in paragraph 91 of the Standard, web sites are susceptible to technological obsolescence, and given the history of rapid changes in technology, their useful life will be short.

8. The following table illustrates examples of expenditures that occur within each of the stages described in paragraphs 2 and 3 above and application of paragraphs 5 and 6 above. It is not intended to be a comprehensive checklist of expenditures that might be incurred.

Nature of Expenditure	Accounting treatment
Planning • undertaking feasibility studies • defining hardware and software Specifications • evaluating alternative products and suppliers • selecting preferences	Expense when incurred
Application and Infrastructure Development • purchasing or developing Hardware	Apply the requirements of ASLB 17, '*Property, Plant & Equipment*'

Nature of Expenditure	Accounting treatment
• obtaining a domain name • developing operating software (e.g., operating system and server software) • developing code for the Application • installing developed applications on the web server • stress testing	Expense when incurred, unless it meets the recognition criteria under paragraphs 28 and 55
Graphical Design and Content Development • designing the appearance (e.g., layout and colour) of web pages • creating, purchasing, preparing (e.g., creating links and identifying tags), and uploading information, either textual or graphical in nature, on the web site prior to the web site becoming available for use. Examples of content include information about an entity, products or services offered for sale, and topics that subscribers access	If a separate asset is not identifiable, then expense when incurred, unless it meets the recognition criteria under paragraphs 28 and 55
Operating • updating graphics and revising Content • adding new functions, features and content • registering the web site with search engines • backing up data • reviewing security access • analysing usage of the web site	Expense when incurred, unless in rare circumstances it meets the criteria in paragraph 28, in which case the expenditure is included in the cost of the web site

Nature of Expenditure	Accounting treatment
Other • selling, administrative and other general overhead expenditure unless it can be directly attributed to preparing the web site for use • clearly identified inefficiencies and initial operating losses incurred before the web site achieves planned performance (e.g., false start testing) • training employees to operate the web site	 Expense when incurred

Appendix B

Implementation Guidance – Illustrative accounting treatment and disclosures

This guidance accompanies, but is not a part of, ASLB 31.

This guidance illustrates accounting treatment of various transactions entered into by a local body.

Illustration: A Local Body 'X' decided to develop its own website. The Expenditure incurred in conducting feasibility study for evaluating various alternatives amounted to Rs. 1.5 Lakhs. After conducting feasibility study, the local body 'X' decided to develop the website. For this purpose, the contract of designing and developing the website was given to an outside agency at Rs. 10 Lakhs. Cost incurred in purchasing hardware was Rs. 3 Lakhs. Costs incurred in updating the contents hosted on the website after the website became operational amounted to Rs. 1 Lakh. Costs incurred in training the employees to operate the website amounted Rs. 50,000. It also acquired a license to reproduce information on its website from another entity at Rs. 2 Lakhs for 2 years. How these transactions should be accounted for in the books of the Local Body 'X'.

(1) Costs incurred on feasibility studies Rs. 1.5 Lakhs should be charged to Statement of Income & Expenditure as an expense as it relates to planning stage of developing the website.

(2) Contract cost of designing and developing the website for Rs. 10 lakhs should be recognised as an internally generated intangible asset 'Website Costs' if the criteria laid down in paragraph 55 of the Standard regarding recognition of intangible asset arising from Development Phase is satisfied.

(3) Hardware purchased should be capitalised as '*Property, Plant and Equipment*' if criteria given in of ASLB 17, '*Property, Plant and Equipment*' are met.

(4) Costs incurred in updating the contents should be charged to Statement of Income & Expenditure as expense as these are incurred for operating and maintenance of the website.

(5) Training costs of Rs. 50,000 should be charged to Statement of Income & Expenditure as expense because in accordance with paragraph 65 of the Standard it is not a component of cost of an internally generated intangible asset.

(6) License acquired to reproduce information for Rs. 2 lakhs should be capitalised as a separate intangible asset as 'Licenses'.

Illustrative disclosures regarding Intangible assets as per Paragraph 117 of the Standard

(a) **Illustrative Accounting Policy regarding amortisation method:** The Intangible assets are amortised over their estimated useful lives not exceeding 10 years on a straight line basis, commencing from the date the asset is available to the entity for its use.

The management estimates the useful lives for the intangible assets as follows:

Category	**Useful life**
Website Costs	5 years
Patents and License	2 years

(b) Illustrative Disclosures:

(Amount in Rs. Lakhs)

Asset Block	Gross Carrying Amount				Amortisation & Impairment Losses					Net Carrying Amount	
	Opening balance (a)	Additions during the year (b)	Retirements/ Disposals (c)	Closing balance (a)+(b)-(c)=(d)	Accumulated amortisation (aggregated with accumulated Impairment/ Loss) Opening balance (e)	Amortisation recognised during the year (f)	Impairment Losses recognised during the year (g)	Impairment Losses reversed during the year (h)	Accumulated amortisation (aggregated with Impairment/ Loss) Closing balance (e)+(f)+(g)-(h)=(i)	At the end of the year (d)-(i)	At the beginning of the year
Internally Generated Intangible Asset											
Website Costs	-	10	-	10	-	2	-	-	2	8	-
Other Intangible Asset											
Licenses	-	2	-	2	-	1	-	-	1	1	-

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 31 and the corresponding International Public Sector Accounting Standard (IPSAS) 31, 'Intangible Assets'.

Comparison with IPSAS 31, *'Intangible Assets'*

1. Paragraph 5 of IPSAS 31 which provides that Government Business Enterprises should use IFRSs, has been deleted, as it is not relevant for ASLB 31, which is applicable to Local Bodies of India. However, paragraph number 5 is retained in ASLB 31, in order to maintain consistency with IPSAS 31.

2. Exclusions in respect of Intangible assets acquired in a business combination, goodwill acquired in a business combination, deferred acquisition costs, deferred tax assets and intangible assets arising from an insurer's contractual rights under insurance contracts, and non-current intangible assets classified as held for sale have been removed from the ASLB 31, as these are not considered to be relevant for Local Bodies in India.

3. Some definitions additional to that in IPSAS 31 have been provided in the ASLB 31.

4. IPSAS 31 requires that intangible assets acquired through a non-exchange transaction should be valued at fair value. In order to avoid the complexity as the Local Bodies in India are at initial stage of implementing the accrual accounting, ASLB 31 prescribes that Local Bodies should measure such intangible assets at nominal value.

5. Revaluation model for recognising the intangible assets have been removed from the ASLB 31. The ASLB 31 provides that after the intial recognition, an intangible asset should be carried at its cost less any accumulated amortisation and any accumulated impairment loss. Consequential changes have also been made. Paragraph numbers have been retained in order to maintain consistency with the corresponding IPSAS.

6. IPSAS 31 provides that the useful life of an intangible asset can be finite or indefinite while the ASLB 31 provides that there is a rebuttable presumption that the life of an intangible asset will not exceed ten years from the date when the asset is available for use. Accordingly all paragraphs pertaining to the indefinite life have been removed. However, the paragraph numbers have been retained in order to maintain consistency with the corresponding IPSAS.

7. Due to the above changes, certain disclosure requirements have also been changed.

8. Paragraphs relating to effective date have been removed as the ASLB 31 would become mandatory for Local Bodies in a state from the date specified by the State Government concerned. Paragraph numbers have been retained in order to maintain consistency with IPSAS 31.

9. As compared to IPSAS 31, ASLB 31 provides an appendix on "Illustrative Application of the Accounting Standard to Computer Software for internal use and Website Costs" which states that useful life of the software is likely to be shorter, say 3 to 5 years.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 31 and the corresponding existing Accounting Standard 26, 'Intangible Assets'.

Comparison with corresponding existing Accounting Standard 26, *'Intangible Assets'*

1. ASLB 31 includes a scope exclusion for the powers and rights conferred by legislation, a constitution, or by equivalent means.

2. ASLB 31 does not require or prohibit the recognition of intangible heritage assets. An entity that recognises intangible heritage assets is required to comply with the disclosure requirements of this Standard with respect to those intangible heritage assets that have been recognised and may, but is not required to, comply with other requirements of this Standard in respect of those intangible heritage assets. Existing AS 26 does not provide the similar guidance.

3. Existing AS 26 contains requirements and guidance on goodwill and intangible assets acquired in a business combination. ASLB 31 does not include this guidance, as this is not considered to be relevant for Local Bodies.

4. Existing AS 26 contains guidance on intangible assets acquired by way of a government grant whereas ASLB 31 deals with this aspect by way of intangible assets acquired through non-exchange transactions.

5. The examples included in ASLB 31 have been modified to better address Local Bodies circumstances.

6. ASLB 31 uses different terminology, in certain instances, from existing AS 26. The most significant examples are the use of the terms "revenue", "income and expenditure statement", "future economic benefits or service potential", "accumulated surpluses or deficits," "operating/operation" and "rights from binding arrangements (including rights from contracts or other legal rights)" in ASLB 31. The equivalent terms in existing AS 26 are "income", "profit & loss statement", "future

economic benefits", "retained earnings", "business" and "contractual or other legal rights".

7. Some additional guidance with respect to the cost of the Intangible assets has been provided in the ASLB 31 as compared to AS 26.

8. Existing AS 26 gives reference to Accounting Standard on '*Impairment of Assets'*. However, ASLB 31 makes reference to ASLBs on 'Impairment of Cash Generating' and 'Non-cash Generating Assets'.

9. ASLB 31 permits the review of residual value at each reporting date as compared to existing AS 26.

Accounting Standard for Local Bodies (ASLB)

Financial Reporting under the Cash Basis of Accounting

(This Accounting Standard for Local Bodies is being issued as an interim measure till all Local Bodies in India shift to accrual basis of accounting. Since this Standard contains various disclosure requirements relating to assets and liabilities, it would facilitate transitioning to accrual basis of accounting for the Local Bodies preparing general purpose financial statements under the cash basis of accounting as per this Accounting Standard for Local Bodies. The requirements given in this Standard including presentation requirements relating to cash receipts and cash payments are in addition to the requirements, if any, prescribed under the law relevant to local bodies in the context of cash basis of accounting. Wherever the requirement prescribed by this Standard are in conflict with the requirements prescribed under the law, the law will prevail.

This Accounting Standard includes paragraphs set in ***bold italic*** *type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objectives and the Preface to the Accounting Standards for Local Bodies to the extent relevant for cash basis of accounting[1].)*

Structure of the Standard

This Standard comprises two parts:

- Part 1 of the Accounting Standard for Local Bodies: *Financial Reporting under the Cash Basis of Accounting* will be recommendatory in nature in the initial years for use by the local bodies. This part will be mandatory for Local Bodies in a state from the date specified in this regard by the State Government

[1] Attention is specifically drawn to paragraph 4.2 of the 'Preface to the Accounting Standards for Local Bodies', according to which Accounting Standards are intended to apply only to items which are material.

concerned[2]. It sets out the requirements which are applicable to all entities preparing general purpose financial statements under the cash basis of accounting. It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with a number of specific reporting issues. After becoming mandatory, the requirements in this part of the Standard must be complied with by entities which claim to be reporting in accordance with the Accounting Standard for Local Bodies: *Financial Reporting under the Cash Basis of Accounting.*

- Part 2 of the Accounting Standard for Local Bodies: *Financial Reporting under the Cash Basis of Accounting* identifies additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements. It includes explanations of alternative methods of presenting certain information.

[2] Reference may be made to the paragraph 7.1 of the '*Preface to the Accounting Standards for Local Bodies'* providing the discussion on the compliance with the Accounting Standards for Local Bodies.

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Accounting Standard for Local Bodies (ASLB)

Financial Reporting under the Cash Basis of Accounting

PART 1: REQUIREMENTS

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies)*

Objective

The purpose of this Standard is to prescribe the manner in which general purpose financial statements should be presented under the cash basis of accounting.

Information about the cash receipts, cash payments and cash balances of an entity is necessary for accountability purposes and provides input useful for assessments of the ability of the entity to generate adequate cash in the future and the likely sources and uses of cash. In making and evaluating decisions about the allocation of cash resources and the sustainability of the entity's activities, users require an understanding of the timing and certainty of cash receipts and cash payments.

Compliance with the requirements and encouragements of this Standard will enhance comprehensive and transparent financial reporting of the cash receipts, cash payments and cash balances of the entity. It will also enhance comparability with the entity's own financial statements of previous periods and with the financial statements of other entities which adopt the cash basis of accounting.

1.1 Scope of the Requirements

1.1.1 An entity which prepares and presents financial statements under the cash basis of accounting, as defined in this Standard, should apply the requirements of Part 1 of this Standard in the presentation of its general purpose annual financial statements.

1.1.2 General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs. Users of general purpose financial statements include taxpayers, members of the legislature, creditors, suppliers, the media and employees. General purpose financial statements include those financial statements that are presented separately or within another public document such as an annual report.

1.1.3 This Standard applies equally to the general purpose financial statements of an individual entity and to the consolidated general purpose financial statements of an economic entity, i.e., a group of entities comprising the controlling entity and controlled entities. It requires the preparation of a statement of cash receipts and payments which recognises the cash controlled by the reporting entity, and the disclosure of accounting policies and explanatory notes. It also requires that amounts settled on behalf of the reporting entity by third parties be disclosed on the face of the statement of cash receipts and payments.

1.1.4 An entity whose financial statements comply with the requirements of Part 1 of this Standard should disclose that fact. Financial statements should not be described as complying with this Standard unless they comply with all the requirements in Part 1 of the Standard.

1.1.5 This Standard applies to entities described as Local Bodies in the preface to the Accounting Standards for Local Bodies[3].

1.1.6 [Refer to Appendix A]

1.1.7 [Refer to Appendix A]

[3] Refer paragraph 1.3 of the 'Preface to the Accounting Standards for Local Bodies'.

1.2 The Cash Basis

Definitions

1.2.1 The following terms are used in this Standard with the meaning specified:

> **Cash comprises cash on hand, demand deposits and cash equivalents.**
>
> ***Cash basis means a basis of accounting that recognises transactions and other events only when cash is received or paid.***
>
> ***Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.***
>
> ***Cash flows are inflows and outflows of cash.***
>
> ***Cash payments are cash outflows.***
>
> ***Cash receipts are cash inflows.***
>
> ***Control of cash arises when the entity can use or otherwise benefit from the cash in pursuit of its objectives and can exclude or regulate the access of others to that benefit.***

Cash Basis of Accounting

1.2.2 The cash basis of accounting recognises transactions and events only when cash (including cash equivalents) is received or paid by the entity. Financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the financial statements is balances of cash and changes therein. Notes to the financial statements may provide additional information about liabilities, such as payables and borrowings, and some non-cash assets, such as receivables, inventories, investments and property, plant and equipment.

Cash Equivalents

1.2.3 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

1.2.4 Bank borrowings are generally considered to give rise to cash inflows. However, where bank overdrafts which are repayable on demand form an integral part of an entity's cash management. In these circumstances, bank overdrafts are included as a component of cash. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.

1.2.5 Cash flows exclude movements between items that constitute cash because these components are part of the cash management of an entity rather than increases or decreases in the cash it controls. Cash management includes the investment of excess cash on hand in cash equivalents.

Cash Controlled by the Reporting Entity

1.2.6 Cash is controlled by an entity when the entity can use the cash for the achievement of its own objectives or otherwise benefit from the cash and exclude or regulate the access of others to that benefit. Cash collected by, or appropriated or granted to, an entity which the entity can use to fund its operating objectives, acquire capital assets or repay its debt is controlled by the entity.

1.2.7 Amounts deposited in the bank account of an entity are controlled by that entity. In some cases, cash which an entity:

(a) Collects on behalf of any government (or another entity) such as cesses collected on behalf of State Government or water charges collected on behalf of Water Board, is deposited in its own bank account before transfer to such other government or entity; and

(b) Is to transfer to third parties on behalf of any government (or another entity) is initially deposited in its own bank account prior to transfer to the authorised recipient.

In these cases, the entity will control the cash for only the period during which the cash resides in its bank account prior to transfer to any government controlled bank account, or to third parties. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions. Additional guidance on the treatment of cash flows that an entity administers on behalf of other entities is included in paragraphs 2.1.15 to 2.1.22 of Part 2 of this Standard.

1.2.8 In some cases, a government will manage the expenditure of its individual departments and other entities through a centralised treasury function, often referred to as a "single account" basis. Under these arrangements, individual departments and entities do not control their own bank accounts. Rather, government monies are managed by a central entity through a "single" government account or series of accounts. The central entity will make payments on behalf of individual departments and entities after appropriate authorisation and documentation. Consequently, individual departments and entities do not control the cash that they have been appropriated or otherwise authorised to expend. In these cases, the expenditures made by individual departments and entities will be reported in a separate column headed "treasury account" (or a similarly described column) in the statement of cash receipts and payments in accordance with the requirements of paragraph 1.3.24(a).

1.2.9 In some cases, the centralised treasury function will be undertaken by an entity which controls the bank account(s) from which payments on behalf of the individual operating departments and other entities are made. In these cases, transfers to and payments from those bank accounts reflect cash receipts and payments which the central entity administers on behalf of the individual operating departments and other entities. Paragraph 1.3.13 specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other entities and which are recognised in the primary financial statements may be reported on a net basis. Paragraph 1.4.9 requires the disclosure of cash balances held by an entity at reporting date that are not available for use by the entity or are subject to external restrictions.

1.3 Presentation and Disclosure Requirements

Definitions

1.3.1 The following terms are used in this Standard with the meanings specified:

> **Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.**
>
> ***Materiality Information is material if its omission or misstatement could influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or misstatement.***
>
> ***Reporting date means the date of the last day of the reporting period to which financial statements relate.***
>
> ***Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.***

1.3.2 Financial statements result from processing large quantities of transactions that are structured by being aggregated into groups according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data that form line items either on the face of the financial statements or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of the financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material that it should be presented separately in the notes.

1.3.3 The principle of materiality provides that the specific disclosure requirements of Accounting Standards for Local Bodies need not be met if the resulting information is not material.

Financial Statements

1.3.4 An entity should prepare and present general purpose financial statements which include the following components:

(a) A statement of cash receipts and payments which:

i. Recognises all cash receipts, cash payments and cash balances controlled by the entity; and

ii. Separately identifies payments made by third parties on behalf of the entity in accordance with paragraph 1.3.24 of this Standard;

(b) Accounting policies and explanatory notes; and

(c) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments in accordance with paragraph 1.9.8 of this Standard.

1.3.5 When an entity elects to disclose information prepared on a different basis from the cash basis of accounting as defined in this Standard or otherwise required by paragraphs 1.3.4(a) or 1.3.4(c), such information should be disclosed in the notes to the financial statements.

1.3.6 The general purpose financial statements comprises the statement of cash receipts and payments and other statements that disclose additional information about the cash receipts, payments and balances controlled by the entity and accounting policies and notes. In accordance with the requirements of paragraph 1.3.4(a)(i) above, only cash receipts, cash payments and cash balances controlled by the reporting entity will be recognised as such in the statement of cash receipts and payments or other statements that might be prepared. In accordance with the requirements of paragraph 1.3.4(c) above, the general purpose financial statements may include a comparison of budget and actual amounts as an additional financial statement.

1.3.7 Paragraph 1.3.24 of this Standard requires disclosure on the face of the statement of cash receipts and payments of certain payments made by third

parties on behalf of the reporting entity. Payments made by third parties will not satisfy the definition of cash, cash payments and cash receipts as defined in paragraph 1.2.1 of this Standard and will not be presented as cash receipts and payments controlled by the reporting entity in the statement of cash receipts and payments or other statements that might be prepared by the reporting entity. Paragraph 1.9.17 of this Standard provides that an entity can present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis. When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented.

1.3.8 Notes to the financial statements include narrative descriptions or more detailed schedules or analysis of amounts shown on the face of the financial statements, as well as additional information. They include information required and encouraged to be disclosed by this Standard, and can include other disclosures considered necessary to achieve a fair presentation and enhance accountability.

1.3.9 This Standard does not preclude an entity from including in its general purpose financial statements, statements in addition to the statement of cash receipts and payments as specified in paragraph 1.3.4 above. Consequently, general purpose financial statements may also include additional statements which, for example:

(a) Report cash receipts, cash payments and cash balances for major fund categories;

(b) Provide additional information about the sources and deployment of borrowings and the nature and type of cash payments; or

(c) Provide a comparison of actual and budget amounts. In accordance with the requirements of paragraph 1.3.5 above, any additional statements will only report cash receipts, payments and balances which are controlled by the entity.

1.3.10 Entities that report using the cash basis of accounting frequently collect information on items that are not recognised under cash accounting. Examples of the type of information that may be collected include details of:

(a) Receivables, payables, borrowings and other liabilities, non-cash assets and accruing revenues and expenses;

(b) Commitments and contingent liabilities; and

(c) Performance indicators and the achievement of service delivery objectives.

1.3.11 Entities preparing general purpose financial statements in accordance with this Standard may disclose such information in the notes to the financial statements where that information is likely to be useful to users. Where such disclosures are made they should be clearly described and readily understandable. If not disclosed in the financial statements themselves, comparisons with budget may also be included in the notes. Part 2 of this Standard encourages inclusion of information about non-cash assets and liabilities and a comparison with budget in general purpose financial statements. For the purpose of making disclosures related to non-cash assets and liabilities, guidance in respect of recognition and measurement of such items may be drawn from the following in descending order (a) the accrual based Accounting Standards for Local Bodies issued by the ICAI (b) existing Accounting Standards issued by the ICAI for commercial entities and Guidance Notes on Accounting. Such pronouncements also include 'Framework for the Preparation and Presentation of Financial Statements' (c) International Public Sector Accounting Standards issued by International Public Sector Accounting Standards Board.

Information to be Presented in the Statement of Cash Receipts and Payments

1.3.12 The statement of cash receipts and payments should present the following amounts for the reporting period:

(a) Total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations;

(b) Total cash payments of the entity showing separately a sub-classification of total cash payments using a classification based on either the nature of the payments or their function appropriate to the entity's operations; and

(c) Opening and closing cash balances of the entity.

1.3.12A In accordance with paragraph 1.3.12 (b), whichever basis is adopted by the entity for sub-classification of total cash payments, the entity should disclose the total cash payments as per the other basis of classification either as a separate statement or by way of notes.

1.3.13 Total cash receipts and total cash payments, and cash receipts and cash payments for each sub-classification of cash receipt and payment, should be reported on a gross basis, except that cash receipts and payments may be reported on a net basis when:

(a) They arise from transactions which the entity administers on behalf of other parties and which are recognised in the statement of cash receipts and payments; or

(b) They are for items in which the receipts and related payments are in quick succession, the amounts are large, and the maturities are short.

1.3.14 Line items, headings and sub-totals should be presented in the statement of cash receipts and payments when such presentation is necessary to present fairly the entity's cash receipts, cash payments and cash balances.

1.3.15 This Standard requires all entities to present a statement of cash receipts and payments which discloses beginning and closing cash balances of the entity, total cash receipts and total cash payments over the reporting period, and major sub-classifications thereof. This will ensure that the financial statements provide comprehensive information about the cash balances of the entity and changes therein over the period in a format that is accessible and understandable to users.

1.3.16 Disclosure of information about such matters as the cash balances of the entity, whether cash is generated from taxes, fines, fees, and/or borrowings and whether it was expended to meet operating costs, for the acquisition of capital assets or for the retirement of debt will enhance transparency and accountability of financial reporting. These disclosures will also facilitate more informed analysis and assessments of the entity's current cash resources and the likely sources and sustainability of future cash inflows.

Classification

1.3.17 The sub-classifications (or classes) of total cash receipts and payments which will be disclosed in accordance with paragraphs 1.3.12, 1.3.12A and 1.3.14 are a matter of professional judgment. That judgment will be applied in the context of the objective and qualitative characteristics of financial reporting under the cash basis of accounting. Appendix 4 of this Standard summarises the qualitative characteristics of financial reporting. Total cash receipts may be classified to, for example, separately identify cash receipts from: taxation or appropriation; grants and donations; borrowings; proceeds from the disposal of property, plant and equipment; and other ongoing service delivery and trading activities. Total cash payments may be classified to, for example, separately identify cash payments in respect of: ongoing service delivery activities including transfers to constituents or other entities; debt reduction programs; acquisitions of property, plant and equipment; and any trading activities. Alternative presentations are also possible, for example total cash receipts may be classified by reference to their source and cash payments may be sub-classified by reference to either the nature of the payments or their function or program within the entity, as appropriate.

1.3.17A As mentioned in paragraph 1.3.12 and 1.3.12A, cash payment items may be sub-classified using classification based on the nature of payments or their function. The two classification basis referred to above are illustrated below: The first method is referred to as the nature of payments method. Payments are aggregated according to their nature (for example, purchases of materials, transport costs, wages and salaries), and are not reallocated amongst various functions within the entity. An example of a classification using the nature of payments method is as follows:

	Cash payments
Wages and salaries	(X)
Transport costs	(X)
Capital expenditure	(X)
Borrowing costs	(X)
Others	(X)
Total payments	(X)

The second method, referred to as the functional method of classification, classifies payments according to the program or purpose for which they were made. This presentation often provides more relevant information to users, although the allocation of payments to functions can be arbitrary and may involve considerable judgment. An example of a functional classification of cash payments is as follows:

	Cash payments
Health services	(X)
Education services	(X)
Capital projects	(X)
Finance costs	(X)
Others	(X)
Total payments	(X)

Line Items, Headings and Sub-Totals

1.3.18 Factors to be taken into consideration in determining which line items, headings and sub-totals should be presented within each sub-classification in accordance with the requirements of paragraph 1.3.14 above include: the requirements of other sections of this Standard (for example, paragraph 1.10.8 requires that total external assistance received in cash during the period be disclosed separately on the face of the Statement of Cash Receipts and Payments); assessments of the likely materiality of the disclosures to users; and the extent to which necessary explanations and disclosures are made in the notes to the financial statements. Paragraphs 2.1.23 and 2.1.30 of Part 2 of this Standard set out disclosures of additional major classes of cash flows that an entity is encouraged to make in the notes to the financial statements or in the financial statements themselves. It is likely that in many, but not necessarily all, cases these disclosures will satisfy the requirements of paragraph 1.3.12 above.

Reporting on a Net Basis

1.3.19 This Standard requires the reporting of cash receipts, payments and balances on a gross basis except in the circumstances identified by paragraph

1.3.13 above. Paragraphs 1.3.20 to 1.3.21 below further elaborate on those circumstances in which reporting on a net basis may be justified.

1.3.20 Entities may administer transactions and otherwise act as agents on behalf of others. These administered and agency transactions may encompass the collection of revenues on behalf of another entity, the transfer of funds to eligible beneficiaries or the safekeeping of monies on behalf of constituents. Examples of such activities may include:

(a) The collection of taxes by the entity for another level of government or another entity, not including taxes collected by the entity for its own use as part of a tax sharing arrangement;

(b) [Refer to Appendix A]

(c) [Refer to Appendix A]

(d) Rents collected on behalf of, and paid over to, the owners of properties; and

(e) Transfers by a local body to third parties consistent with legislation or other government authority.

(f) [Refer to Appendix A]

1.3.21 In many cases, the cash an entity receives in respect of transactions it administers as an agent for others will be deposited directly in the bank account of the ultimate recipients of the cash. In these cases, the entity will not control the cash it receives in respect of the transactions it administers and these cash flows will not form part of the cash receipts, cash payments or cash balances of the entity. However, in other cases the cash received will be deposited in bank accounts controlled by the entity acting as an agent and the receipt and transfer of that cash will be reported in the statement of cash receipts and payments of the entity.

1.3.22 In some cases, the amounts of the cash flows arising from administered transactions which "pass-through" the bank account of the reporting entity may be large relative to the entity's own transactions, and control may occur for only a short time before the amounts are transferred to the ultimate recipients. This may also be true for other cash flows including for example, advances made for,

and the repayment of:

(a) The purchase and sale of investments; and

(b) Other short-term borrowings, for example, those which have a maturity period of three months or less.

1.3.23 The recognition of these transactions on a gross basis may undermine the ability of the financial statements of some entities to communicate information about cash receipts and cash payments resulting from the entity's own activities. Accordingly, this Standard permits cash receipts and cash payments to be offset and reported on a net basis in the statement of cash receipts and payments in the circumstances identified in paragraph 1.3.13 above.

Payments by Third Parties on Behalf of the Entity

1.3.24 Where, during a reporting period, a third party directly settles the obligations of an entity or purchases goods and services for the benefit of the entity, the entity should disclose in separate columns on the face of the statement of cash receipts and payments:

(a) Total payments made by third parties which are part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification basis appropriate to the entity's operations; and

(b) Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification based on either the nature of the payments or their function appropriate to the entity's operation.

Such disclosure should only be made when during the reporting period the entity has been formally advised by the third party or the recipient that such payment has been made or has otherwise verified the payment.

1.3.25 Where a government manages the expenditure of its individual departments and other entities through a centralised treasury function or a

"single account" arrangement, payments are made on behalf of those departments and entities by a central entity after appropriate authorisation and documentation from the department. In these cases, the department or other entity does not control cash inflows, cash outflows and cash balances. However, the department or other entity benefits from the payments being made on its behalf, and knowledge of the amount of these payments is relevant to users in identifying the cash resources the government has applied to the entity's activities during the period. Consistent with paragraph 1.3.24(a) above, the department or other entity reports in a separate column on the face of the statement of cash receipts and payments, the amount of payments made by the central entity on its behalf, and the sources and uses of the amount expended sub-classified on a basis appropriate for the department or other entity. These disclosures will enable users to identify the total amount of payments made, the purposes for which they were made and whether, for example, the payments were made from amounts allocated or appropriated from general revenue or from special purpose funds or other sources.

1.3.26 In some cases, government or other entities may have their own bank accounts and will control certain cash inflows, cash outflows and cash balances. In these cases, government directions or instructions may also require government or an entity to settle certain obligations of another entity, or to purchase certain goods or services on behalf of another entity. Consistent with paragraph 1.3.24(a) above, the reporting entity reports in a separate column on the face of the statement of cash receipts and payments the amount, sources and uses of such expenditures made on its behalf during the reporting period. This will assist users in identifying the total cash resources of the government or other entity which have been applied to the entity's activities during the reporting period, and the sources and uses of those cash resources.

1.3.27 In some cases, third parties which are not part of the economic entity to which the reporting entity belongs purchase goods or services on behalf of the entity or settle obligations of the entity. For example, a government may fund the operation of a health or education program of a local body by directly paying service providers and acquiring and transferring to the local body the necessary supplies during the period. Similarly, a government or independent aid agency may pay a construction company directly for laying or constructing a road for a particular local body rather than providing the funds directly to the local body itself. These payments may be made by way of a grant or other aid, or as a loan which is to be repaid. In these cases, the local body does not receive cash

(including cash equivalents) directly from, or gain control of a bank account or similar facility established for its benefit by, the other entity. Therefore, the amount settled or paid on its behalf does not constitute "cash" as defined in this Standard. However, the local body benefits from the cash payments being made on its behalf.

1.3.28 Paragraph 1.3.24(b) above requires that an entity report in a separate column on the face of its statement of cash receipts and payments, the amount, sources and uses of expenditures made by third parties which are not part of the economic entity to which it belongs. This will enable users to identify the total cash resources being applied to the entity's activities during the reporting period, and the extent to which those resources are provided from parties which are, and which are not, part of the economic entity to which the reporting entity belongs. In some cases, as at reporting date an entity may not be aware that payments have been made on their behalf by third parties during the reporting period. This may occur where the entity has not been formally advised of the third party payment or cannot otherwise verify that an expected payment has occurred. Paragraph 1.3.24 above requires that third party payments only be disclosed on the face of the statement of cash receipts and payments when during the reporting period the entity has been formally advised that such payments have been made or otherwise verifies their occurrence.

1.3.29 The sub-classifications (or classes) of sources and uses of third party payments which will be disclosed in accordance with paragraphs 1.3.24 are a matter of professional judgment. The factors that will be considered in exercising that judgment are outlined in paragraph 1.3.17.

Accounting Policies and Explanatory Notes

Structure of the Notes

1.3.30 The notes to the financial statements of an entity should:

- ***(a)*** ***Present information about the basis of preparation of the financial statements and the specific accounting policies selected and applied for significant transactions and other events; and***

- ***(b)*** ***Provide additional information which is not presented on the face of the financial statements but is necessary for a fair***

presentation of the entity's cash receipts, cash payments and cash balances.

1.3.31 Notes to the financial statements should be presented in a systematic manner. Each item on the face of the statement of cash receipts and payments and other financial statements should be cross referenced to any related information in the notes.

Selection and Disclosure of Accounting Policies

1.3.32 General purpose financial statements should present information that is:

(a) Understandable;

(b) Relevant to the decision-making and accountability needs of users; and

(c) Reliable in that it:

(i) Represents faithfully the cash receipts, cash payments and cash balances of the entity and the other information disclosed;

(ii) Is neutral, that is, free from bias; and

(iii) Is complete in all material respects.

1.3.33 The quality of information provided in general purpose financial statements determines the usefulness of that statement to users. Paragraph 1.3.32 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics. Appendix 4 of this Standard summarises the qualitative characteristics of financial reporting. The appendix also notes that the timeliness of information may impact upon both the relevance and reliability of the financial information. The maintenance of complete and accurate accounting records during the reporting period is essential for timely production of the general purpose financial statement.

1.3.34 The accounting policies section of the notes to the financial statements should describe each specific accounting policy that is

necessary for a proper understanding of the financial statements, including the extent to which the entity has applied any transitional provisions in this Standard.

1.3.35 Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.

1.3.36 In deciding whether a specific accounting policy should be disclosed, management considers whether disclosure would assist users in understanding the way in which transactions and events are reflected in the reported cash receipts, payments and balances. An accounting policy may be significant even if amounts shown for current and prior periods are not material. Paragraph 1.3.4 of this Standard specifies that general purpose financial statements include accounting policies and explanatory notes. Consequently, the requirements of paragraph 1.3.34 above also apply to notes to the financial statements.

1.3.37 Where an entity elects to include in its financial statements any disclosures encouraged in Part 2 of this Standard, those disclosures should comply with the requirements of paragraph 1.3.32 above.

1.3.38 Part 2 of this Standard encourages the disclosure of additional information in notes to the financial statements. Where such disclosures are made, they will need to be understandable and to satisfy the other qualitative characteristics of financial information.

1.4 General Considerations

Reporting Period

1.4.1 The general purpose financial statements should be presented at least annually. When, in exceptional circumstances, an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity should disclose in addition to the period covered by the financial statements:

> ***(a) the reason(s) for a period other than one year being used; and***
>
> ***(b) the fact that comparative amounts may not be comparable.***

1.4.2 The reporting date is the date of the last day of the reporting period to which the financial statements relate. In exceptional circumstances an entity may be required to, or decide to, change its reporting date to, for example, align the reporting cycle more closely with the budgeting cycle. When this is the case, it is important that the reason for the change in reporting date is disclosed and that users are aware that the amounts shown for the current period and the comparative amounts are not comparable.

1.4.3 [Refer to Appendix A]

Timeliness

1.4.4 The usefulness of the financial statements are impaired if they are not made available to users within a reasonable period after the reporting date. An entity should be in a position to issue its financial statements within six months of the reporting date, although a timeframe of not more than three months is strongly encouraged. Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. More specific deadlines are dealt with by legislation and regulations.

Authorisation Date

1.4.5 An entity should disclose the date when the financial statements were authorised for issue and who gave that authorisation. If another authority has the power to amend the financial statements after issuance, the entity should disclose that fact.

1.4.6 The authorisation date is the date on which the financial statements have received approval from the individual or body like the Council with the authority to finalise those statements for issue. It is important for users to know when the financial statements were authorised for issue, because the financial statements do not reflect events after this date.

Information about the Entity

1.4.7 An entity should disclose the following if not disclosed elsewhere in information published with the financial statements:

> ***(a) The domicile and legal form of the entity, and the jurisdiction within which it operates;***

(b) A description of the nature of the entity's operations and principal activities;

(c) A reference to the relevant legislation governing the entity's operations, if any; and

(d) The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable, if any).

1.4.8 The disclosure of the information required by paragraph 1.4.7 will enable users to identify the nature of the entity's operations and gain an understanding of the legislative and institutional environment within which it operates. This is necessary for accountability purposes and will assist users in understanding and evaluating the financial statements of the entity.

Restrictions on Cash Balances and Access to Borrowings

1.4.9 An entity should disclose in the notes to the financial statements together with a commentary, the nature and amount of:

(a) Significant cash balances that are not available for use by the entity;

(b) Significant cash balances that are subject to external restrictions; and

(c) Undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities.

1.4.10 Cash balances held by an entity would not be available for use by the entity, for example, in the case of court attachments or when the balances are not available for general use by the entity.

1.4.11 Cash balances controlled by an entity may be subject to restrictions which limit the purpose or timing of their use. This situation often exists when an entity receives a grant or donation which must be used for a specific purpose. It may also exist where, at reporting date, an entity holds in its own bank accounts cash it has collected for other parties in its capacity as an agent but not yet transferred to those parties. Although these balances are controlled by the

entity and reported as a cash balance of the entity, separate disclosure of the amount of such items is helpful to readers.

1.4.12 Undrawn borrowing facilities represent a potential source of cash for an entity. Disclosure of the amount of these facilities by significant type allows readers to assess the availability of such cash, and the extent to which the entity has made use of them during the reporting period.

Consistency of Presentation

1.4.13 The presentation and classification of items in the financial statements should be retained from one period to the next unless:

- ***(a) A significant change in the nature of the operations of the entity or a review of its financial statements presentation demonstrates that the change will result in a more appropriate presentation of events or transactions; or***
- ***(b) A change in presentation is required by an amendment to this Standard or a change in legislation.***

1.4.14 A major restructuring of service delivery arrangements; the creation of a new, or termination of a major existing entity; a significant acquisition or disposal; or a review of the overall presentation of the entity's general purpose financial statements might suggest that the statement of cash receipts and payments or other individual financial statements should be presented differently. For example, an amalgamation of local bodies into one local body. In this case, the presentation of the financial statements would undergo changes.

1.4.15 Only if the revised structure is likely to continue, or if the benefit of an alternative presentation is clear, should an entity change the presentation of its financial statements. When such changes in presentation are made, an entity reclassifies its comparative information in accordance with paragraph 1.4.19.

Comparative Information

1.4.16 Unless a provision of this Standard permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information required by this Standard to be

disclosed in the financial statements, except in respect of the financial statements for the reporting period to which this Standard is first applied. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

1.4.17 This Standard requires the presentation of a statement of cash receipts and payments and specifies certain disclosures that are required to be made in that statement and notes thereto. This Standard does not preclude the preparation of additional financial statements. Part 2 of this Standard encourages certain additional disclosures. Where financial statements in addition to the statement of cash receipts and payments are prepared or disclosures encouraged by Part 2 of this Standard are made, the disclosure of comparative information is also encouraged.

1.4.18 In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last reporting date and is yet to be resolved, may be disclosed in the current period. Users benefit from knowing that the uncertainty existed at the last reporting date, and the steps that have been taken during the period to resolve the uncertainty.

1.4.19 When the presentation or classification of items required to be disclosed in the financial statements is amended, comparative amounts should be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, amount of, and reason for any reclassification should be disclosed. When it is impracticable to reclassify comparative amounts, an entity should disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.

1.4.20 Circumstances may exist when it is impracticable to reclassify comparative information to achieve comparability with the current period. For example, data may not have been collected in the previous period(s) in a way which allows reclassification, and it may not be practicable to recreate the information. In such circumstances, the nature of the adjustments to comparative amounts that would have been made is disclosed.

Identification of Financial Statements

1.4.21 The financial statements should be clearly identified and distinguished from other information in the same published document.

1.4.22 This Standard applies only to the financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users are able to distinguish information that is prepared using this Standard from other information that may be useful to users but that is not the subject of this Standard.

1.4.23 Each component of the financial statements should be clearly identified. In addition, the following information should be prominently displayed and repeated when it is necessary for a proper understanding of the information presented:

(a) The name of the reporting entity or other means of identification;

(b) Whether the financial statements cover the individual entity or the economic entity;

(c) The reporting date or the period covered by the financial statements, whichever is appropriate to the related component of the financial statements;

(d) The reporting currency; and

(e) The level of precision used in the presentation of figures in the financial statements.

1.4.24 The requirements in paragraph 1.4.23 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgment is required in determining the best way of presenting such information. For example, when the financial statements are read electronically, separate pages may not be used. In such cases, the items identified in paragraph 1.4.23 are presented frequently enough to ensure a proper understanding of the information given.

1.4.25 Financial statements are often made more understandable by presenting information in thousands, lakhs, millions or crores of units of the reporting currency. This is acceptable as long as the level of precision in presentation is disclosed and relevant information is not lost.

1.5 Correction of Errors

1.5.1 When an error arises in relation to a cash balance reported in the financial statements, the amount of the error that relates to prior periods should be reported by adjusting the cash at the beginning of the period.

1.5.2 An entity should disclose in the notes to the financial statements the following:

(a) The nature of the error; and

(b) The amount of the correction.

(c) [Refer to Appendix A]

1.5.3 Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, fraud or oversights. When an error is identified in respect of a previous period, the opening balance of cash is adjusted to correct the error and the financial statements are presented as if the error had been corrected in the period in which it was made. An explanation of the error and its adjustment is included in the notes.

1.5.4 [Refer to Appendix A]

1.5.5 This Standard requires the presentation of a statement of cash receipts and payments, and does not preclude the presentation of other financial statements. Where financial statements in addition to the statement of cash receipts and payments are presented, the requirements in paragraphs 1.5.1 and 1.5.2 for correction of errors will also apply to those statements.

1.6 Consolidated Financial Statements

Definitions

1.6.1 The following terms are used in this Standard with the meanings specified:

> ***Consolidated financial statements are the financial statements of an economic entity presented as that of a single entity.***
>
> ***Control of an entity is the power to govern the financial and operating policies of another entity so as to benefit from its activities.***
>
> ***Controlled entity is an entity that is under the control of another entity (known as the controlling entity).***
>
> ***Controlling entity is an entity that has one or more controlled entities.***
>
> ***Economic entity means a group of entities comprising a controlling entity and one or more controlled entities.***

Economic Entity

1.6.2 The term "economic entity" is used in this Standard to define, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

1.6.3 Other terms sometimes used to refer to an economic entity include "administrative entity", "financial reporting entity", "consolidated entity" and "group."

1.6.4 An economic entity may include entities with both social policy and commercial objectives. For example, a local body XYZ (controlling entity) may control by way of majority voting power in an entity ABC (controlled entity) that provides services of health care for a nominal charge, as well as another entity PQR (controlled entity) that provides transport services on a commercial basis. The group of entities comprising local body XYZ and the controlled entities, viz., ABC and PQR, is the economic entity.

Scope of Consolidated Financial Statements

1.6.5 A controlling entity, other than a controlling entity identified in paragraph 1.6.7, should issue consolidated financial statements which consolidates all controlled entities, other than those referred to in paragraph 1.6.6.

1.6.6 A controlled entity should be excluded from consolidation when it operates under severe external long-term restrictions which prevent the controlling entity from benefiting from its activities. Examples of severe external long term restrictions could be when the resources of a controlled entity are assigned for natural calamity relief for a long period of time. During such period the controlling entity cannot benefit from the activities of the controlled entity.

1.6.7 A controlling entity that is a wholly owned controlled entity need not present consolidated financial statements provided users of such financial statements are unlikely to exist or their information needs are met by the controlling entity's consolidated financial statements.

1.6.8 [Refer to Appendix A]

1.6.9 Users of the financial statements of a controlling entity are usually concerned with, and need to be informed about, the cash resources controlled by the economic entity as a whole. This need is served by consolidated financial statements which present financial information about the economic entity as a single entity without regard for the legal boundaries of the separate legal entities.

1.6.10 Paragraph 1.3.4 of this Standard requires that a reporting entity prepare a statement of cash receipts and payments. Consistent with the requirements of paragraph 1.6.5 above, the statement of cash receipts and payments prepared by a reporting entity which is a controlling entity, will consolidate the cash receipts, cash payments and cash balances of all the entities it controls. The note disclosures required by Part 1 of this Standard will also be presented on a consolidated basis. Appendix 5 of this Standard illustrates the application of the concept of control in determining the financial reporting entity.

1.6.11 This Standard does not preclude the preparation of financial statements additional to the statement of cash receipts and payments. Those additional statements may, for example, disclose additional information about receipts and

payments related to certain fund groups or provide additional details about certain types of cash flows. Part 2 of this Standard identifies additional disclosures that an entity is encouraged to make. The additional statements and disclosures will also report consolidated information where appropriate.

1.6.12 For financial reporting purposes, the reporting entity (financial reporting entity) may consist of a number of controlled entities including departments, agencies and special purpose vehicles. Determining the scope of the financial reporting entity can be difficult due to the large number of potential entities. For this reason, financial reporting entities are often determined by legislation. In some cases, the financial reporting entity required by this Standard may differ from the reporting entity specified by legislation and additional disclosures may be necessary to satisfy the legislative reporting requirements.

1.6.13 A controlling entity that is itself wholly owned by another entity (such as an agency which is wholly owned by a local body), is not required to present consolidated financial statements when such statements are not required by its controlling entity and the needs of other users may be best served by the consolidated financial statements of its controlling entity. However, many controlling entities that are either wholly owned or virtually wholly owned represent key sectors or activities of the local body. In these cases, the information needs of certain users may not be served by the presentation of a consolidated financial statements at the level of ultimate controlling entity alone, and the purpose of this Standard is not to exempt such entities from preparing consolidated financial statements.

1.6.14 [Refer to Appendix A]

1.6.15 In some instances, an economic entity will include a number of intermediate controlling entities. For example, whilst a department of health may be the controlling entity, there may be intermediate controlling entities at the local or regional health authority level. Accountability and reporting requirements prescribed under the laws relevant to local bodies may specify which entities are required to (or exempted from the requirement to) prepare a consolidated financial statement. Where there is no requirement for an intermediate controlling entity to prepare consolidated financial statements but users of general purpose financial statements of the economic entity are likely to exist, intermediate controlling entities are encouraged to prepare and publish such a statement.

Consolidation Procedures

1.6.16 The following consolidation procedures apply:

(a) Cash balances and cash transactions between entities within the economic entity should be eliminated in full;

(b) When the financial statements used in a consolidation are drawn up to different reporting dates, adjustments should be made for the effects of significant cash transactions that have occurred between those dates and the date of the controlling entity's financial statements. In any case, the difference between the reporting dates should be no more than six months; and

(c) Consolidated financial statements should be prepared using uniform accounting policies for like cash transactions. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

1.6.17 The consolidation procedures outlined in paragraph 1.6.16 provide the basis for preparing consolidated financial statements for all the entities within the economic entity as a single economic unit.

1.6.18 The consolidated financial statements should only reflect transactions between the economic entity and other entities external to it. Accordingly, transactions between entities within the economic entity are eliminated to avoid double-counting. For example, a local body may sell a physical asset to an entity which it controls. Because the net cash effect on the reporting entity is zero, this transaction needs to be eliminated to avoid overstating the cash receipts and cash payments of the reporting entity i.e. the local body.

1.6.19 Individual entities within the economic entity may adopt different policies for the classification of cash receipts and cash payments and the presentation of their financial statements. Cash receipts or cash payments arising from like transactions are classified and presented in a uniform manner in the consolidated financial statements where practicable.

Consolidation Disclosures

1.6.20 The following disclosures should be made in consolidated financial statements:

- ***(a) A listing of significant controlled entities including the name, the activity or purpose for which the controlled entity operates; and***
- ***(b) The reasons for not consolidating a controlled entity.***

Transitional Provisions

1.6.21 Controlling entities that adopt this Standard may have large numbers of controlled entities with significant volumes of transactions between those entities. Accordingly, it may be difficult to identify all the transactions and balances that need to be eliminated for the purpose of preparing the consolidated financial statements of the economic entity. For this reason, paragraph 1.6.21A provides relief, during the transitional period, from the requirement to eliminate all cash balances and transactions between entities within the economic entity. However, paragraph 1.6.21B requires that entities which apply the transitional provision should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.

1.6.21A ***Entities are not required to comply with the requirement in paragraph 1.6.16(a) concerning the elimination of cash balances and transactions between entities within the economic entity for reporting periods beginning on a date within three years following the date of first adoption of this Standard.***

1.6.21B ***Where entities apply the transitional provision in paragraph 1.6.21A, they should disclose the fact that not all balances and transactions between entities within the economic entity have been eliminated.***

1.7 Foreign Currency

Definitions

1.7.1 The following terms are used in this Standard with the meanings specified:

***Closing rate* is the spot exchange rate at the reporting date.**

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

***Exchange rate* is the ratio for exchange of two currencies.**

***Foreign currency* is a currency other than the reporting currency of an entity.**

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

Treatment of Foreign Currency Cash Receipts, Payments and Balances

1.7.2 Cash receipts and payments arising from transactions in a foreign currency should be recorded in an entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts and payments.

1.7.3 Cash balances held in a foreign currency should be reported using the closing rate.

1.7.4 [Refer to Appendix A]

1.7.5 An entity should disclose the amount of exchange differences included as reconciling items between opening and closing cash balances for the period.

1.7.6 [Refer to Appendix A]

1.7.7 Entities may have transactions in foreign currencies such as borrowing an amount of foreign currency or purchasing goods and services where the purchase price is designated as a foreign currency amount. In order to include foreign currency transactions in financial statements the entity must express cash receipts, payments and balances in reporting currency terms.

1.7.8 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash receipts and payments. However, the effect of exchange rate changes on cash held in a foreign currency is reported in the statement of cash receipts and payments in order to reconcile cash at the beginning and the end of the period. This amount is presented separately from cash receipts and payments and includes the differences, if any, had those cash receipts, payments and balances been reported at end-of-period exchange rates.

1.8.1 ***[Refer to Appendix A]***

1.8.2-1.8.3 ***[Shifted to Consolidated Financial Statements section as paragraphs 1.6.21A & 1.6.21B]***

1.9 Presentation of Budget Information in Financial Statements

Definitions

1.9.1 ***The following terms are used in this Standard with the meanings specified:***

> ***Accounting basis** means the accrual or cash basis of accounting as defined in the Accounting Standards for Local Bodies.*
>
> ***Annual budget** means an approved budget for a financial year. It does not include published forward estimates or projections for periods beyond the budget period.*
>
> ***Appropriation** is an authorisation granted by the appropriate authority or government to allocate funds for specific purposes.*
>
> ***Approved budget** means the expenditure authority derived from laws, government orders and other decisions related to the anticipated revenue or receipts for the budgetary period.*
>
> ***Budgetary basis** means the accrual, cash or other basis of accounting adopted in the budget that has been duly approved.*

Comparable basis ***means the actual amounts presented on the same accounting basis, same classification basis, for the same entities and for the same period as the approved budget.***

Revised budget ***is the original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorised legislative or similar authority, changes applicable to the budget period.***

Original budget ***is the initial approved budget for the budget period.***

Approved Budgets

1.9.2 An approved budget as defined by this Standard reflects the anticipated revenues or receipts expected to arise in the annual period based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by the appropriate authority. An approved budget is not a forward estimate or a projection based on assumptions about future events and possible management actions which are not necessarily expected to take place. Similarly, an approved budget differs from prospective financial information which may be in the form of a forecast, a projection or a combination of both – for example, a one year forecast plus a five year projection.

1.9.3 The critical feature of approved budgets is that the authority to withdraw funds from its own bank account or the government treasury for agreed and identified purposes is provided by the appropriate authority. The approved budget establishes the expenditure authority for the specified items. The expenditure authority is generally considered the legal limit within which an entity must operate.

1.9.4 If a budget is not approved prior to the beginning of the budget period, the original budget is the budget that has been approved for a specified period within the year by the appropriate authority.

Revised Budget

1.9.5 [Refer to Appendix A]

1.9.6 Supplemental appropriations may be necessary where the original budget did not adequately envisage expenditure requirements arising from, for example,

natural disasters. In addition, there may be a shortfall in budgeted receipts during the period, and internal transfers between budget heads or line items may be necessary to accommodate changes in funding priorities during the fiscal period. Consequently, the funds allotted to an entity or activity may need to be cut back from the amount originally appropriated for the period in order to maintain fiscal discipline. The revised budget includes all such authorised changes or amendments.

Actual Amounts

1.9.7 This Standard uses the term actual or actual amounts to describe the amounts that result from execution of the budget.

Presentation of a Comparison of Budget and Actual Amounts

1.9.8 Subject to the requirements of paragraph 1.9.17, an entity that makes publicly available its approved budget(s) should present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments currently presented in accordance with this Standard. The comparison of budget and actual amounts should present separately:

(a) The original and revised budget amounts;

(b) The actual amounts on a comparable basis; and

(c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Scope

1.9.9 This Standard applies to all entities that are required to make publicly available their approved budget(s). This Standard does not require approved budgets to be made publicly available, nor does it require that the financial

statements disclose information about, or include comparisons with, approved budgets which are not made publicly available.

1.9.10 In some cases, approved budgets will be compiled to encompass all the activities controlled by an entity. In other cases, separate approved budgets may be required to be made publicly available for certain activities, groups of activities or entities included in the financial statements of the entity. This may occur where, for example, a local body's financial statements encompass agencies or programs that have operational autonomy and prepare their own budgets. This Standard applies to all entities which present financial statements when approved budgets for the entity, or components thereof, are made publicly available.

Comparison of Budget and Actual Amounts

1.9.11 Presentation in the financial statements of the original and revised budget amounts and actual amounts on a comparable basis with the budget, which is made publicly available, will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. Differences between the actual amounts and the budget amounts, whether original or revised budget (often referred to as the "variance" in accounting), may also be presented in the financial statements for completeness.

1.9.12 An explanation of the material differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the entity is held publicly accountable.

1.9.13 An entity may be required, to make publicly available its original budget, its revised budget or both its original and revised budget. In circumstances where both original and revised budget are required to be made publicly available, the legislation, regulation or other authority will often provide guidance on whether explanation of material differences between actual and the original budget amounts, or actual and the revised budget amounts, is required in accordance with paragraph 1.9.8(c). In the absence of any such guidance, material differences may be determined by reference to, for example, differences between actual and original budget to focus on performance against original budget, or differences between actual and revised budget to focus on compliance with the revised budget.

1.9.14 In many cases, the revised budget amount and the actual amount will be the same. This is because budget execution is monitored over the reporting period and the original budget progressively revised to reflect changing conditions, changing circumstances and experiences during the reporting period. Paragraph 1.9.23 of this Standard requires the disclosure of an explanation of the reasons for changes between the original and revised budget. That disclosure, together with the disclosures required by paragraph 1.9.8 above, will ensure that entities which make publicly available their approved budget(s) are held publicly accountable for their performance against, and compliance with, the relevant approved budget.

1.9.15 Reports like city management reports, annual administrative reports, management discussion and analysis, or other public reports which provide commentary on the performance and achievements of the entity during the reporting period, including explanations of any material differences from budget amounts, are often issued in conjunction with the financial statements. In accordance with paragraph 1.9.8(c) of this Standard, explanation of material differences between actual and budget amounts will be included in notes to the financial statements unless included in other public reports or documents issued in conjunction with the financial statements, and the notes to the financial statements identify the reports or documents in which the explanation can be found.

1.9.16 [Refer to Appendix A]

Presentation

1.9.17 ***An entity should present a comparison of budget and actual amounts as additional budget columns in the statement of cash receipts and payments only where the financial statements and the budget are prepared on a comparable basis.***

1.9.18 Comparisons of budget and actual amounts may be presented in a separate financial statement ("statement of comparison of budget and actual amounts" or a similarly titled statement). Alternatively, where the financial statements and the budget are prepared on a comparable basis – that is, on the same basis of accounting for the same entity and reporting period, and adopt the same classification structure – additional columns may be added to the statement of cash receipts and payments presented in accordance with this Standard. These additional columns will identify original and revised budget

amounts and, if the entity so chooses, differences between the budget and actual amounts.

1.9.19 When the budget and financial statements are not prepared on a comparable basis, a separate statement of comparison of budget and actual amounts is presented. In these cases, to ensure that readers do not misinterpret financial information which is prepared on different bases, the financial statements could usefully clarify that the budget and the accounting bases differ and the statement of comparison of budget and actual amounts is prepared on the budget basis.

Level of Aggregation

1.9.20 Budget documents may provide great detail about particular activities, programs or entities. These details are often aggregated into broad classes under common budget heads, budget classifications or budget headings for presentation to, and approval by, the appropriate authority. The disclosure of budget and actual information consistent with those broad classes and budget heads or headings will ensure that comparisons are made at the level of legislative or other authoritative body oversight.

1.9.21 In some cases, the detailed financial information included in approved budgets may need to be aggregated for presentation in financial statements in accordance with the requirements of this Standard. Such aggregation may be necessary to avoid information overload and to reflect relevant levels of legislative or other authoritative body oversight. Determining the level of aggregation will involve professional judgment. That judgment will be applied in the context of the objective of this Standard and the qualitative characteristics of financial reporting as identified in paragraph 1.3.32 of this Standard.

1.9.22 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Part 2 of this Standard encourages the inclusion in the financial statements of a cross reference to such documents.

Changes from Original to Revised Budget

1.9.23 An entity should present an explanation of whether changes between the original and revised budget are a consequence of reallocations within the budget, or of other factors, either:

(a) By way of note disclosure; or

(b) In a report issued before, at the same time as, or in conjunction with the financial statements, and should include a cross reference to the report in the notes to the financial statements.

1.9.24 The revised budget includes all changes approved by the appropriate authority to revise the original budget. Consistent with the requirements of this Standard, notes to the financial statements or a separate report issued before, in conjunction with or at the same time as the financial statements, will include an explanation of changes between the original and revised budget. That explanation will include whether, for example, changes arise as a consequence of reallocations within the original budget parameters or as a consequence of other factors, such as changes in the overall budget parameters, including changes in government policy. Such disclosures are often made in a management report or similar report on operations issued in conjunction with, but not as part of, the financial statements. Such disclosures may also be included in budget outcome reports issued by governments to report on budget execution. Where such disclosures are made in a separate report rather than in the notes to the financial statements, the notes will include a cross reference to that report.

Comparable Basis

1.9.25 All comparisons of budget and actual amounts should be presented on a comparable basis to the budget.

1.9.26 The comparison of budget and actual amounts will be presented on the same accounting basis, same classification basis and for the same entities and period as for the approved budget. This will ensure that the disclosure of information about compliance with the budget in the financial statements is on the same basis as the budget itself. In some cases, this may mean presenting a budget and actual comparison on a different basis of accounting, for a different group of activities, and with a different presentation or classification format than that adopted for the financial statements.

1.9.27 Financial statements consolidate entities and activities controlled by the entity. As noted in paragraph 1.9.10, separate budgets may be approved and made publicly available for individual entities or particular activities that make up the consolidated financial statements. Where this occurs, the separate budgets may be recompiled for presentation in the financial statements in accordance

with the requirements of this Standard. Where such recompilation occurs, it will not involve changes or revisions to approved budgets. This is because this Standard requires a comparison of actual amounts with the approved budget amounts.

1.9.28 Entities may adopt different bases of accounting for the preparation of their financial statements and for their approved budgets. For example, in some, albeit rare, cases an entity may adopt the modified cash basis[4] for its financial statements and the cash basis for its budget. However, the budget entity and financial reporting entity will often be the same. Similarly, the period for which the budget is prepared and the classification basis adopted for the budget will often be reflected in financial statements. This will ensure that the accounting system records and reports financial information in a manner which facilitates the comparison of budget and actual data for management and for accountability purposes – for example, for monitoring progress of execution of the budget during the budget period and for reporting to the government, the public and other users on a relevant and timely basis.

1.9.29-1.9.32 [Refer to Appendix A]

Note Disclosures of Budgetary Basis, Period and Scope

1.9.33 An entity should explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget.

1.9.34 There may be differences between the accounting basis, for example, cash basis used in preparation and presentation of the budget and the modified cash basis used in the financial statements. These differences may occur when the accounting system and the budget system compile information from different perspectives – the budget may focus on cash flows, while the financial statements report cash receipts and cash payments plus certain accruals and commitments in notes to financial statements.

[4] The modified cash basis of accounting recognises as disbursements and receipts in a reporting period those amounts expended and received respectively, during the reporting period plus those cash flows in a specified period following the reporting date (e.g., 60 days) that relate to events or transactions occurring during the reporting period. In effect, under this basis the books are kept open at the year end to identify payables and receivables that relate to events or transactions occurring during the reporting period.

1.9.35 Formats and classification schemes adopted for presentation of the approved budget may also differ from the formats adopted for the financial statements. An approved budget may classify items on the same basis as is adopted in the financial statements, for example, expenditures by economic nature (compensation of employees, supplies and consumables, grants and transfers, etc) or function (health, education, etc). Alternatively, the budget may classify items by specific programs (for example, poverty reduction or control of contagious diseases) or program components linked to performance outcome objectives (for example, length of motorable roads, pass percentage of students), which differ from classifications adopted in the financial statements. Further, a revenue budget for ongoing operations (for example, education or health) may be approved separately from a capital budget (for example, infrastructure or buildings).

1.9.36 Disclosure of the budgetary basis and classification basis adopted for the preparation and presentation of approved budgets will assist users to better understand the relationship between the budget and accounting information disclosed in the financial statements.

1.9.37 An entity should disclose in notes to the financial statements the period of the approved budget.

1.9.38 Financial statements are presented at least annually. Entities approve budgets for an annual period. Disclosure of the period covered by the approved budget where that period differs from the reporting period adopted for the financial statements will assist the user of those financial statements to better understand the relationship of the budget data and budget comparison to the financial statements. Disclosure of the period covered by the approved budget where that period is the same as the period covered by the financial statements will also serve a useful confirmation role, particularly where interim budgets and financial statements and reports are also prepared.

1.9.39 An **entity** ***should identify in notes to the financial statements the entities included in the approved budget.***

1.9.40 [Refer to Appendix A]

Reconciliation of Actual Amounts on a Comparable Basis and Actual Amounts in the Financial Statements

1.9.41 ***The actual amounts presented on a comparable basis to the budget in accordance with paragraph 1.9.25 should, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to total cash receipts and total cash payments, identifying separately any basis, timing and entity differences. The reconciliation should be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.***

1.9.42 Differences between the actual amounts identified consistent with the comparable basis and the actual amounts recognised in the financial statements can be classified into the following:

(a) Budgetary basis differences, which occur when the approved budget is prepared on a basis other than the accounting basis. For example, where the budget is prepared on the cash basis and the financial statements are prepared on the modified cash basis;

(b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements; and

(c) Entity differences, which occur when the budget omits programs or entities that are part of the entity for which the financial statements are prepared.

There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

1.9.43 The reconciliation required by paragraph 1.9.41 of this Standard will enable the entity to better discharge its accountability obligations by identifying major sources of difference between the actual amounts on a budget basis and the total cash receipts and total cash payments recognised in the statement of cash receipts and payments. This Standard does not preclude reconciliation of each major total and subtotal, or each class of items, presented in a comparison of budget and actual amounts with the equivalent amounts in the financial statements.

1.9.44 For entities adopting the cash basis of accounting for preparation of both the budget documents and the financial statements, a reconciliation will not be required where the budget is prepared for the same period, encompasses the same entities and adopts the same presentation format as the financial statements. For other entities adopting the same basis of accounting for the budget and the financial statements, there may be a difference in presentation format, reporting entity or reporting period – for example, the approved budget may adopt a different classification or presentation format to the financial statements. A reconciliation would be necessary where there are presentation, timing or entity differences between the budget and the financial statements prepared on the same accounting basis.

1.9.45 The disclosure of comparative information in respect of the previous period in accordance with the requirements of this Standard is not required.

1.9.46 This Standard requires a comparison of budget and actual amounts to be included in the financial statements of entities which make publicly available their approved budget(s). It does not require the disclosure of a comparison of actual amounts of the previous period with the budget of that previous period, nor does it require that the related explanations of differences between the actuals and budget of that previous period be disclosed in the financial statements of the current period.

1.9.47 ***[Refer to Appendix A]***

1.9.48 [Refer to Appendix A]

1.10 Recipients of External Assistance

Definitions

1.10.1 The following terms are used in this Standard with the meaning specified:

> ***Assigned External Assistance** means any external assistance, including external assistance grants, technical assistance, guarantees or other assistance, received by an entity that is assigned by the recipient to another entity.*

Bilateral External Assistance Agencies are agencies established under national law, regulation or other authority of a nation for the purpose of, or including the purpose of, providing some or all of that nation's external assistance.

External Assistance means all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives.

Multilateral External Assistance Agencies are all agencies established under international agreement or treaty for the purpose of, or including the purpose of, providing external assistance.

Non-Governmental Organisations (NGOs) are all foreign or national agencies established independent of control by any government for the purpose of providing assistance to government(s), government agencies, other organisations or to individuals.

Official Resources means all loans, grants, technical assistance, guarantees or other assistance provided or committed under a binding agreement by multilateral or bilateral external assistance agencies or by a government, or agencies of a government, other than to a recipient of the same nation as the government or government agency providing, or committing to provide, the assistance.

Re-Lent External Assistance Loans means external assistance loans received by an entity that are lent by the recipient to another entity.

1.10.2 Different organisations may use different terminology for external assistance or classes of external assistance. For example, some organisations may use the term external aid or aid, rather than external assistance. In these cases, the different terminology is unlikely to cause confusion. However, in other cases, the terminology may be substantially different. In these cases, preparers, auditors and users of general purpose financial statements will need to consider the substance of the definitions rather than just the terminology in determining whether the requirements of this Standard apply.

External Assistance

1.10.3 External assistance is defined in paragraph 1.10.1 as all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives. Official resources as defined in paragraph 1.10.1 does not encompass assistance provided by non-governmental organisations (NGOs), even if such assistance is provided under a binding agreement. Assistance received from NGOs, whether in the form of cash donations or third party settlements, will be presented in the financial statements and disclosed in explanatory notes in accordance with the requirements of Sections 1.1 to 1.9 of Part 1 of this Standard. Paragraph 2.1.64 encourages, but does not require, application of the disclosures required by paragraphs 1.10.1 to 1.10.27 to assistance received from NGO's where practicable.

1.10.4 NGOs as defined in paragraph 1.10.1 are foreign or national agencies established independent of control by any government. In some rare cases, it may not be clear whether the donor organisation is a bilateral or multilateral external assistance agency or a NGO, and therefore independent of control by any government. Where such a donor organisation provides, or commits to provide, assistance under the terms of a binding agreement, the distinction between official resources as defined in this Standard and resources provided by a NGO may become blurred. In these cases, professional judgment will need to be exercised to determine whether the assistance received satisfies the definition of external assistance and, therefore, is subject to the disclosure requirements specified in this section.

Official Resources

1.10.5 Official resources are defined in paragraph 1.10.1 to be resources committed under a binding agreement by multilateral or bilateral external assistance agencies or governments or government agencies, other than to a recipient of the same nation as the provider of the assistance. Governments as referred to in the definition of official resources may include national, state, provincial or local governments in any nation. Therefore, assistance provided by, for example, a national government or state government agency of one nation to a state or local government of another nation is external assistance as defined in this Standard. However, assistance provided by a national or state government to another level of government within the same nation does not satisfy the definition of official resources, and therefore is not external assistance.

External Assistance Agreements

1.10.6 Governments seeking particular forms of external assistance may participate in formal meetings or rounds of meetings with donor organisations. These may include meetings to discuss the government's macroeconomic plans and its development assistance needs, or bilateral discussions at governmental level regarding finance military assistance, balance of payments and other forms of assistance. They may also include separate meetings to consider the country's emergency assistance needs as those needs arise. Initial discussions may result in statements of intent or pledges which are not binding on the government or the external assistance agency. However, subsequently binding agreements may be set in place to make available assistance loans or grants provided restrictions on access to the funds, if any, are met and agreed conditions or covenants are adhered to by the recipient entity. External assistance agreements may also include the provision of goods or services in-kind to the recipient.

1.10.7 External assistance agreements may provide for the entity to:

(a) Draw down in cash the full proceeds of the loan or grant or a tranche of the loan or grant;

(b) Seek reimbursement(s) for qualifying payments made by the entity to a third party settling in cash an obligation(s) of the entity, as defined by the loan or grant agreement; or

(c) Request the external assistance agency to make payments directly to a third party settling in cash an obligation(s) of the recipient entity as defined by the loan or grant agreement, including an obligation of the recipient entity for goods or services provided or to be provided by a NGO.

External Assistance Received

1.10.8 The entity should disclose separately on the face of the Statement of Cash Receipts and Payments, total external assistance received in cash during the period.

1.10.9 The entity should disclose separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial

statements, total external assistance paid by third parties during the period to directly settle obligations of the entity or purchase goods and services on behalf of the entity, showing separately:

- ***(a)*** ***Total payments made by third parties which are part of the economic entity to which the reporting entity belongs; and***
- ***(b)*** ***Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs. These disclosures should only be made when, during the reporting period, the entity has been formally advised by the third party or the recipient that such payment has been made, or has otherwise verified the payment.***

1.10.10 Where external assistance is received from more than one provider, the significant classes of providers of assistance should be disclosed separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.

1.10.11 Where external assistance is received in the form of loans and grants, the total amount received during the period as loans and the total amount received as grants should be shown separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.

1.10.12 External assistance may be provided directly to the reporting entity in the form of cash. Alternatively, a third party may provide external assistance by settling an obligation of the reporting entity or purchasing goods and services for the benefit of the reporting entity. In some cases:

- (a) The third party may be part of the economic entity to which the reporting entity belongs – this will occur where, for example, external assistance in the form of cash is provided for the benefit of a program run by a particular department of a local body where the local body manages the expenditure of its individual departments and other entities through a centralised treasury function or a “single account” arrangement. In these cases, the treasury or other central agency receives the external assistance and makes payments of amounts provided by way of external assistance on behalf of the department,

after appropriate authorisation and documentation from the department; or

(b) The third party may not be part of the economic entity to which the reporting entity belongs – this will occur where, for example, an aid agency makes a debt repayment to a regional development bank on behalf of a local body, pays a construction company directly for building a road for a particular local body rather than providing the funds directly to the local body itself, or funds the operation of a health or education program of an independent local body by directly paying service providers and acquiring on behalf of the local body the necessary supplies during the period.

1.10.13 Disclosure of the amount of external assistance received in the form of cash and in the form of third party payments made on behalf of the entity will indicate the extent to which the operations of the reporting entity are funded from taxes and/or internal sources, or are dependent upon external assistance. Consistent with the requirements of paragraph 1.3.24 of this Standard, external assistance paid by third parties should only be disclosed in the statement of Cash Receipts and Payments when the reporting entity has been formally advised that such payments have been made during the reporting period or otherwise verifies their occurrence. Disclosure of the significant classes of external assistance received is also encouraged, but not required (see paragraph 2.1.66).

1.10.14 Disclosure of the significant classes of providers of assistance such as, for example, multilateral donors, bilateral donors, international assistance organisations, national assistance organisations or other major classes as appropriate for the reporting entity will identify the extent of the entity's dependence on particular classes of providers and will be relevant to an assessment of the sustainability of the assistance. This Standard does not require the disclosure of the identity of each provider of assistance or the amount of assistance each provides. However, disclosure of the amount provided by each provider in the currency provided is encouraged (see paragraph 2.1.70).

1.10.15 External assistance is often denominated in a currency other than the reporting currency of the entity. Cash receipts, or payments made by third parties on behalf of the entity arising from transactions in a foreign currency, will be recorded or reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and

the foreign currency at the date of the receipts or payments in accordance with paragraph 1.7.2 of this Standard.

1.10.16 Governments usually retain the exclusive right to enter into external assistance agreements with multilateral or bilateral external assistance agencies. In many of these cases, the project or activity is implemented by another entity. The government may re-lend or assign the funds received to the other entity. The terms and conditions of the re-lent or assigned funds may be the same as received from the external assistance agency or may be different than initially received. In some cases, a small fee or interest spread is charged to cover the government's administrative costs. An entity which enters into an external assistance agreement and passes the benefits as well as the terms and conditions of the agreement through to another entity by way of a subsidiary agreement will recognise or report the external assistance as it is received. It will also record payments to the second entity in accordance with its normal classification of payments adopted in the financial statements.

1.10.17 Where the initial recipient of a loan or grant passes the proceeds and the terms and conditions of the loan or grant through to another entity, the initial entity may simply be administering the loan or grant on behalf of the end user. Netting of transactions where the terms and conditions are substantially the same may be appropriate in the financial statements of the administrator, in accordance with the provisions of paragraph 1.3.13 of this Standard.

Undrawn External Assistance

1.10.18 The entity should disclose in the notes to the financial statements the balance of undrawn external assistance loans and grants available at reporting date to fund future operations when, and only when, the amount of the loans or grants available to the recipient is specified in a binding agreement and the satisfaction of any substantial terms and conditions that determine, or affect access to, that amount is highly likely, showing separately in the reporting currency:

- ***(a) Total external assistance loans; and***
- ***(b) Total external assistance grants.***

Significant terms and conditions that determine, or affect access to, the amount of the undrawn assistance should also be disclosed.

1.10.19 The amount of external assistance currently committed under a binding agreement(s) but not yet drawn may be significant. In some cases, the amount of the assistance loan(s) or grant(s) is specified in a binding agreement and the satisfaction of any substantial conditions that need to be satisfied to access that amount is highly likely. This may occur in respect of undrawn balances of project funding for projects currently under development where conditions have been, and continue to be, satisfied and the project is anticipated to continue under the terms of the agreement. Where such undrawn balances are provided in a foreign currency, opening and closing balances will be determined by applying to the foreign currency amount the exchange rate on the reporting dates in accordance with the provisions of paragraph 1.7.3 of this Standard.

1.10.20 In some cases, a donor entity may express an intention to provide ongoing assistance to the reporting entity, but not specify in a binding agreement the amount of the assistance loan(s) or grant(s) to be provided in future periods – for example, this may occur where the amount of assistance to be provided is dependent on the annual budget of the donor or other sources of funding that may be secured by the recipient. In other cases, the amount of assistance may be specified but be subject to terms and conditions, the satisfaction of which cannot be assessed as being highly likely at the reporting date – for example, this may occur in respect of emergency assistance to be provided subject to the amount of assistance provided by other agencies. In these cases, disclosure of the undrawn amounts is not made. In some cases, professional judgment may need to be exercised in assessing whether the satisfaction of the substantial terms and conditions that determine, or effect access to, the external assistance is highly likely.

Receipt of Goods or Services

1.10.21 Where an entity elects to disclose the value of external assistance received in the form of goods or services, it should also disclose in the notes to the financial statements the basis on which that value is determined.

1.10.22 Paragraph 2.1.90 of this Standard encourages an entity to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services. Paragraph 1.3.38 of this Standard explains that where encouraged disclosures are included in notes to the financial statements, they will need to be understandable and to satisfy the other qualitative

characteristics of financial information. Where an entity elects to make such disclosures, it is required to disclose in the notes to the financial statements the basis on which that value is determined. Such disclosure will enable users to assess whether, for example, the value is determined by reference to donor valuation, fair value determined by reference to prices in the world or domestic markets, by management assessment or on another basis.

Disclosure of Debt Rescheduled or Cancelled

1.10.23 An entity should disclose in the notes to the financial statements the amount of external assistance debt rescheduled or cancelled during the period, together with any related terms and conditions.

1.10.24 An entity experiencing difficulty in servicing its external assistance debt may seek renegotiation of the terms and conditions of the debt or cancellation of the debt. Disclosure of the amount of external assistance debt rescheduled or cancelled, together with any related terms and conditions will alert users of the financial statements that such renegotiation or cancellation has occurred. This will provide useful input to assessments of financial condition of the entity and changes therein.

Disclosure of Non-Compliance with Significant Terms and Conditions

1.10.25 An entity should disclose, in notes to the financial statements, significant terms and conditions of external assistance loan or grant agreements or guarantees that have not been complied with during the period when non compliance resulted in cancellation of the assistance or has given rise to an obligation to return assistance previously provided. The amount of external assistance cancelled or to be returned should also be disclosed.

1.10.26 External assistance agreements will usually include terms and conditions that must be complied with for ongoing access to assistance funds, as well as some procedural terms and conditions.

1.10.27 The disclosures required by paragraph 1.10.25 will enable readers to identify the instances of non compliance that have adversely affected the funds that are available to support the entity's future operations. It will also provide

input to assessments of whether re-establishment of compliance with the agreement may occur in the future. Disclosure of non-compliance with significant terms and conditions in other cases is also encouraged, but not required (see paragraph 2.1.83).

Transitional Provisions for Section 1.10

1.10.28 [Refer to Appendix A]

1.10.29 [Refer to Appendix A]

1.10.30 Entities are not required to disclose separately in the notes to the financial statements the balance of undrawn external assistance as specified in paragraph 1.10.18 for a period of two years from the date of first application of this Standard.

1.10.31 When an entity applies the transitional provisions in paragraph 1.10.30, it should disclose that it has done so.

1.10.32 In the first year of application of the requirements of this Standard, an entity may not have the information necessary to enable it to disclose the closing balance of undrawn external assistance as required by paragraph 1.10.18.

1.10.33 Paragraph 1.10.30 provides relief from the requirement to apply paragraph 1.10.18 for a period of two years from initial application of that paragraph.

1.10.34 To ensure users are informed of the extent to which the requirements of this Standard have been complied with, paragraph 1.10.31 requires that entities that make use of these transitional provisions disclose that they have done so.

Appendix 1

Illustration of the Requirements of Part 1 of the Standard

This Appendix is illustrative only and does not form part of the Standard. It illustrates an extract of a Statement of Receipts and Payments and relevant note disclosures for an entity that has received external assistance loans and grants during the current and preceding periods. Its purpose is to assist in clarifying the meaning of the standards by illustrating their application in the preparation and presentation of general purpose financial statements under the cash basis of accounting. The receipts and payments heads in these formats may be modified to make them consistent with those given in the budget of the local body.

CONSOLIDATED FINANCIAL STATEMENTS FOR LOCAL BODY A CONSOLIDATED STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR YEAR ENDED MARCH 31, 20XX

(RECEIPTS)

(in thousands of currency units)	Note	20XX-XX			20XX-XX–1		
		Receipts/ (Payments) controlled by entity	Treasury Account	Payments by third parties	Receipts/ (Payments) controlled by entity	Treasury Account	Payments by third parties
RECEIPTS							
Taxes & Cess							
Property tax		x	—	—	x	—	—
Other taxes		x	—	—	x	—	—
Cesses		x	—	—	x	—	—

Assigned revenue		x	—	—	x	—	—
Lease		x	—	—	x	—	—
		x	—	—	x	—	—
External Assistance	10						
Multilateral Agencies		x	x	x	x	x	x
Bilateral Agencies		x	x	x	x	x	x
		x	x	x	x	x	x
Other Grants and Aid							
Central Government		x	x	x	x	x	x
State Government		x	x	x	x	x	x
		x	x	x	x	x	x
Other Borrowings							
Receipts from borrowing	3						
- From banks		x			x		
- From Government		x			x		
- From financial institutions		x			x		
- others		x			x		
		x			x		
Capital Receipts							
Proceeds from disposal of property, plant and equipment			x			x	
Investments							
Proceeds from maturity of investments		x			x		
Trading Activities							
Receipts from trading activities		x			x		
Other receipts	4	x		x	x		x
Total receipts		**x**	**x**	**x**	**x**	**x**	**x**

(PAYMENTS)

(in thousands of currency units)	Note	20XX-XX			20XX-XX–1		
		Receipts/ (Payments) controlled by entity	Treasury Account	Payments by third parties	Receipts/ (Payments) controlled by entity	Treasury Account	Payments by third parties
PAYMENTS							
Operations							
Wages, salaries and employee benefits		(x)	(x)	(x)	(x)	(x)	(x)
Supplies andConsumables		(x)	(x)	(x)	(x)	(x)	(x)
Operations & Maintenance expenses		(x)	(x)	(x)	(x)	(x)	(x)
		(x)	(x)	(x)	(x)	(x)	(x)
Transfers							
Grants		(x)	(x)	—	(x)	(x)	—
Other transfer payments		(x)	(x)	—	(x)	(x)	—
		(x)	(x)	—	(x)	(x)	—
Capital Expenditures							
Purchase/construction of property, plant and equipment		(x)	(x)	(x)	(x)	(x)	(x)
Infrastructure assets		(x)	(x)	-	(x)	(x)	-
		(x)	(x)	(x)	(x)	(x)	(x)

Annuities		(x)	(x)	—	(x)	(x)	—
Loan and Interest Repayments							
Repayment of borrowings		(x)	(x)	—	(x)	(x)	—
Interest payments		(x)	(x)	—	(x)	(x)	—
		(x)	(x)	—	(x)	(x)	—
Investments		(x)	(x)	—	(x)	(x)	—
Other payments	**5**	**(x)**	**(x)**	**(x)**	**(x)**	**(x)**	**(x)**
Total payments		**(x)**	**(x)**	**(x)**	**(x)**	**(x)**	**(x)**
Increase/(Decrease) in Cash		**(x)**	**(x)**	**-**	**(x)**	**(x)**	**-**
Cash at beginning of year	**2**	**(x)**	**(x)**	**N/A***	**(x)**	**(x)**	**N/A**
Increase/(Decrease) inCash		**(x)**	**(x)**	**N/A**	**(x)**	**(x)**	**N/A**
Cash at end of year	**2**	**(x)**	**(x)**	**N/A**	**(x)**	**(x)**	**N/A**

* N/A = Not applicable

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT (BUDGET VARIANCE STATEMENT)

For Local Body X for the Year Ended March 31, 20XX Budget Approved on the Cash Basis (Classification of Payments by Functions)

(in thousands of currency units)	*Actual Amounts	Revised Budget	Original Budget	***Difference: Revised Budget and Actual***
CASH INFLOWS				
Taxation	x	x	x	x
Government grants	x	x	x	x
Scheme grants	x	x	x	x
International agencies	x	x	x	x
Other grants and aid	x	x	x	x
Borrowing	x	x	x	x
Disposal of plant and equipment	x	x	x	x
Trading activities	x	x	x	x
Other receipts	x	x	x	x
Total receipts	**x**	**x**	**x**	**x**
CASH OUTFLOWS				
Health	(x)	(x)	(x)	(x)
Education	(x)	(x)	(x)	(x)
Storm Water Drains	(x)	(x)	(x)	(x)
Welfare	(x)	(x)	(x)	(x)
Horticulture	(x)	(x)	(x)	(x)
Basic Services for Urban Poor	(x)	(x)	(x)	(x)
Engineering	(x)	(x)	(x)	(x)
Projects	(x)	(x)	(x)	(x)
General Administration	(x)	(x)	(x)	(x)
Other	(x)	(x)	(x)	(x)
Total payments	(x)	(x)	(x)	(x)
NET CASH FLOWS	**x**	**x**	**x**	**x**

* Actual amounts encompass both cash and third party settlements.

** The "Difference…" column is not required. However, a comparison between actual and the original or the revised budget, clearly identified as appropriate, may be included.

ADDITIONAL FINANCIAL STATEMENTS (OPTIONAL)

Additional financial statements may be prepared to provide details of amounts included in the consolidated statement of cash receipts and payments: for example, to disclose information by major funds or to disclose expenditures by major functions or programs, or to provide details of sources of borrowings. Columns disclosing budgeted amounts may also be included.

STATEMENT OF CASH RECEIPTS BY FUND CLASSIFICATION

	20XX		20XX–1	
(in thousands of currency units)	**Receipts controlled by entity**	**Treasury Account**	**Receipts controlled by entity**	**Treasury Account**
RECEIPTS				
General Fund	x	x	x	x
Water Supply Fund	x	x	x	x
Education Fund	x	x	x	x
Special Funds	x	x	x	x
Trading Funds	x	x	x	x
Total receipts	**x**	**x**	**x**	**x**

BORROWINGS

(in thousands of currency units)	Note	20XX-XX			20XX-XX–1		
		Receipts/ (Payments) controlled by entity	Treasury Account	Payments by third parties	Receipts/ (Payments) controlled by entity	Treasury Account	Payments by third parties
BORROWINGS							
Domestic Commercial Institution		x	x	-	x	x	-
Offshore Commercial Institution		x	x	-	x	x	-
Development Banks and Similar Lending Agencies		x	x	x	x	x	x
Total borrowings	3	**x**	**x**	**x**	**x**	**x**	**x**

STATEMENT OF PAYMENTS BY PROGRAMS/ACTIVITIES/FUNCTION OF LOCAL BODY

(in thousands of currency units)	Note	20XX-XX			20XX-XX–1		
		Receipts/ (Payments) controlled by entity	Treasury Account	Payments by third parties	Receipts/ (Payments) controlled by entity	Treasury Account	Payments by third parties
PAYMENTS/EXPENDITURE							
Operating Account							
Education Services		x	x	x	x	x	x
Health Services		x	x	x	x	x	x
Welfare		x	x	x	x	x	x
Engineering		x	x	x	x	x	x

Horticulture		x	x	x	x	x	x
Basic Services for Urban Poor		x	x	x	x	x	x
General Administration		x	x	x	x	x	x
Other		x	x	x	x	x	x
Total payments/expenditure		**x**	**x**	**x**	**x**	**x**	**x**
PAYMENTS/EXPENDITURE							
Capital Account							
Education Services		x	x	x	x	x	x
Health Services		x	x	x	x	x	x
Welfare		x	x	x	x	x	x
Projects		x	x	x	x	x	x
Storm Water Drains		x	x	x	x	x	x
General Administration		x	x	x	x	x	x
Other		x	x	x	x	x	x
Total payments/ expenditure		**x**	**x**	**x**	**x**	**x**	**x**
Total Operating and Capital Accounts		**x**	**x**	**x**	**x**	**x**	**x**

Notes to the Financial Statements

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with ASLB on *Financial Reporting under the Cash Basis of Accounting*.

The accounting policies have been applied consistently throughout the period.

Reporting entity

The financial statements are for the ______ local body. The financial statements encompass the reporting entity as specified in the relevant legislation (______________). This comprises:

i. Departments of the local body; and

ii. Joint ventures that are under the control of the local body.

The consolidated financial statements include all entities controlled during the year. A list of significant controlled entities is shown in Note 7 to the financial statements.

Certain receipts and payments of the local body are made by the State Treasury. Payments made on this account in respect of the local body are disclosed in the Treasury Account column in the Statement of Cash Receipts and Payments and other financial statements.

Payments by Third Parties

The local body also benefits from goods and services purchased on its behalf as a result of cash payments made by third parties during the period by way of loans and contributions. The payments made by the third parties do not constitute cash receipts or payments by the local body but do benefit the local body. They are disclosed in the *Payments by third parties* column in the Consolidated Statement of Cash Receipts and Payments and other financial statements.

Reporting currency

The reporting currency is Indian Rupees.

2. Cash

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents consist of balances with banks and short term investments. Cash included in the statement of cash receipts and payments comprise the following amounts:

(Rs. in thousands)	**20XX**	**20XX–1**
Cash on hand and balances with banks	x	x
Short-term investments	x	x
	x	x

Included in the amount stated above is Rs. XX have been provided by the International Agency XX that is restricted to the construction of road infrastructure.

3. Borrowings

Borrowings comprise cash inflows from banks, similar lending agencies and commercial institutions and amounts owing in respect of non-cash assistance provided by third parties.

4. Other Receipts

Included in other receipts are fees, fines, penalties and miscellaneous receipts.

5. Other Payments/Expenditure

Included in other payments are miscellaneous payments which cannot be classified under specific heads.

6. Undrawn Borrowing Facilities Other than Undrawn External Assistance

(See note 10 for undrawn external assistance)

(Rs. in thousands)	20XX	20XX–1
Movement in Undrawn Borrowing Facilities		
Undrawn borrowing facilities at 1.4.XX	x	x
Additional loan facility	x	x
Total available	x	x
Amount drawn	(x)	(x)
Facility closure/cancellations	(x)	(x)

(Rs. in thousands)	20XX	20XX–1
Undrawn Borrowing Facilities		
Commercial Financial Institutions	x	x
Banks	x	x
Total undrawn borrowing facilities	x	x

7. Significant Controlled Entities

Entity	Activity or Purpose
Entity A	x
Entity B	x
Entity C	x
Entity D	x

8. Authorisation Date

The financial statement was authorised for publication on XX *Month* 20XX by a resolution passed by the Council.

9. Original and Revised Approved Budget and Comparison of Actual and Budget Amounts

The budget is approved on a cash basis by functional classification. The approved budget covers the fiscal period from April 1, 20XX to March 31, 20XX and includes all local body departments – these are identified in Note 7 above.

The original budget was approved by a council resolution dated ______ and a supplemental appropriation of XXX for disaster relief support was approved by a council resolution dated ______ due to the earthquake in the town on (date). The original budget objectives and policies, and subsequent revisions are explained more fully in the City Management Report issued in conjunction with the financial statements.

The excess of actual expenditure over the revised budget of 15% (25% over original budget) for the health function was due to expenditures above the level approved by a council resolution dated ______ in response to the earthquake. There were no other material differences between the revised approved budget and the actual amounts.

The budget and the accounting bases differ. The financial statements for the local body are prepared on the modified cash basis using a classification based on the nature of expenses in the Income and Expenditure Statement. The financial statements are consolidated statements which include all controlled entities, including joint ventures for the fiscal period from April 1, 20XX to March 31 20XX. The budget is approved on the cash basis by functional classification and deals only with the local body which excludes joint ventures and certain other non-market government entities and activities.

The amounts in the statement of cash receipts and payments were adjusted to be consistent with the cash basis and reclassified by functional classification to be on the same basis as the revised approved budget. In addition, adjustments to amounts in the statement of cash receipts and payments for timing differences associated with the continuing appropriation and differences in the entities covered (joint ventures and other entities) were made to express the actual amounts on a comparable basis to the revised approved budget.

A reconciliation between the actual inflows and outflows as presented in the statement of comparison of budget and actual amounts and the amounts of total

cash receipts and total cash payments reported in the statement of cash receipts and payments for the year ended March 31, 20XX is presented below.

	Total inflows	**Total outflows**
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**x**	**x**
Basis Differences	x	x
Timing Differences	-	-
Entity Differences	x	x
Total Cash receipts	**x**	
Total Cash Payments		**x**

The financial statements and budget documents are prepared for the same period. There is an entity difference: the budget is prepared for the local body only and the financial statements consolidate all entities controlled by the local body. There is also a basis difference: the budget is prepared on a cash basis and the financial statements on the modified cash basis. This reconciliation could be included on the face of the Statement of Comparison of Budget and Actual Amounts or as a note disclosure.

10. External Assistance

Payments by Third Parties

All payments made by third parties are made by third parties which are not part of the economic entity.

External Assistance

External assistance was received in the form of loans and grants from multilateral and bilateral donor agencies under agreements specifying the purposes for which the assistance will be utilised. The following amounts are presented in the reporting currency of the entity.

	20XX Total	**20XX–1 Total**
Loan Funds		
Multilateral Agencies	x	x
Bilateral Agencies	x	x
Total	x	x
Grant Funds		
Multilateral Agencies	x	x
Bilateral Agencies	x	x
Total	x	x
Total External Assistance	**x**	**x**

Non Compliance with significant terms and conditions and rescheduled and cancelled debt

There have been no instances of non compliance with terms and conditions which have resulted in cancellation of external assistance loans.

External assistance grants of X domestic currency units were cancelled during the reporting period. The cancellation resulted from over estimation of the cost of specified development projects and consequentially expenditure of an amount less than that committed for the period by the donor entity.

Undrawn External Assistance

Undrawn external assistance loans and grants at reporting date are amounts specified in a binding agreement which relate to funding for projects currently under development, where conditions have been satisfied, and their ongoing satisfaction is highly likely, and the project is anticipated to continue to completion.

	Loans 20XX	**Grants 20XX**	**Loans 20XX–1**	**Grants 20XX–1**
Closing balance in reporting currency	**x**	**x**	**x**	**x**

The significant terms and conditions that determine or affect access to the amount of undrawn assistance relate to the achievement of the following specified construction targets for development of health and education infrastructure: (Entity to identify significant construction targets).

PART 2: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING ENCOURAGED ADDITIONAL DISCLOSURES

This part of the Standard is not mandatory. It sets out encouraged additional disclosures for reporting under the cash basis. It should be read together with Part 1 of this Standard, which sets out the requirements for reporting under the cash basis of accounting. The encouraged disclosures, which have been set in italic, should be read in the context of the commentary paragraphs in this part of the Standard, which are in plain type.

Financial Reporting Under The Cash Basis of Accounting Part 2: Encouraged Additional Disclosures

2.1 Encouraged Additional Disclosures

Definitions

2.1.1 The following terms are used in this part of the Standard with the meanings specified:

Accrual basis means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

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

Closing rate is the spot exchange rate at the reporting date.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

Extraordinary items are (for the purposes of this Standard) cash flows that arise from events or transactions that are clearly distinct from the ordinary activities of the entity, are not expected to recur frequently or regularly and are outside the control or influence of the entity.

A financial asset is any asset that is:

(a) Cash;

(b) A contractual right to receive cash or another financial asset from another entity;

(c) A contractual right to exchange financial instruments with another entity under conditions that are potentially favourable; or

(d) An equity instrument of another entity.

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Ordinary activities are any activities which are undertaken by an entity as part of its service delivery or trading activities. Ordinary activities include such related activities in which the entity engages in furtherance of, incidental to, or arising from these activities.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Terms defined in Part 1 of this Standard are used in this part of the Standard with their defined meaning.

Future Economic Benefits or Service Potential

2.1.2 Assets, including cash and other resources, provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with an entity's objectives but which do not directly generate net cash inflows are often described as embodying "service potential." Assets that are used to generate net cash inflows are often described as embodying future economic benefits. To encompass all the purposes to which assets may be put, this Standard uses the term "future economic benefits or service potential" to describe the essential characteristic of assets.

Going Concern

2.1.3 When preparing the financial statements of an entity, those responsible for the preparation of the financial statements are encouraged to make an assessment of the entity's ability to continue as a going concern. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the entity's ability to continue as a going concern, the disclosure of those uncertainties is encouraged.

2.1.4 In assessing whether the entity is a going concern, those responsible for the preparation of the financial statements:

(a) Will need to take into account all available information for the foreseeable future which will include, but will not necessarily be limited to, twelve months from the approval of the financial statements; and

(b) May need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organisational units, estimates of receipts or the likelihood of continued government funding, and potential sources of financing before it is appropriate to conclude that the entity is a going concern.

2.1.5 There may be circumstances where the usual going concern tests of liquidity and solvency as applied to business enterprises appear unfavorable, but other factors suggest that the entity is nonetheless a going concern. For example:

(a) In assessing whether the entity is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though their cash payments may exceed their cash receipts for extended periods; and

(b) For an individual entity, an assessment of its cash flows for a reporting period may suggest that the entity is not a going concern. However, there may be multi-year funding agreements in place with the government that will ensure the continued operation of the entity.

Extraordinary Items

2.1.6 An entity is encouraged to separately disclose the nature and amount of each extraordinary item. The disclosure may be made on the face of the statement of cash receipts and payments, or in other financial statements or in the notes to the financial statements.

2.1.7 Extraordinary items are characterised by the fact that they arise from events or transactions that are distinct from an entity's ordinary activities, are not expected to recur frequently or regularly and are outside the control or influence of the entity. Accordingly, extraordinary items are rare, unusual and material.

Distinct from Ordinary Activities

2.1.8 Whether an event or transaction is clearly distinct from the ordinary activities of the entity is determined by the nature of the event or transaction in relation to the activities ordinarily carried on by the entity rather than by the frequency with which such events are expected to occur. An event or transaction may be extraordinary for one entity, but not extraordinary for another entity, because of the differences between their respective ordinary activities.

Not Expected to Recur in the Foreseeable Future

2.1.9 The event or transaction will be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. The nature of extraordinary items is such that they would not normally be anticipated at the beginning of a reporting period and therefore would not be included in a budget. Inclusion of an item in a budget suggests that the occurrence of the specific item is foreseen and therefore not extraordinary.

Outside the Control or Influence of the Entity

2.1.10 The event or transaction will be outside the control or influence of the entity. A transaction or event is presumed to be outside the control or influence of an entity if the decisions of the entity do not normally influence the occurrence of that transaction or event.

Identifying Extraordinary Items

2.1.11 Whether or not an item is extraordinary will be considered in the context of the entity's operating environment. Judgment will be exercised in each case.

2.1.12 Examples of cash flows associated with events or transactions that may, although not necessarily, give rise to extraordinary items for some entities are:

(a) Short-term cash flows associated with the provision of services to refugees where the need for such services was unforeseen at the beginning of the period, outside the ordinary scope of activities for the entity and outside the control of the entity. If such services were predictable or occurring in more than one reporting period they would not generally be classified as extraordinary; and

(b) The cash flows associated with the provision of services following a natural or man-made disaster, for example, the provision of shelter to homeless people following an earthquake. In order for a particular earthquake to qualify as an extraordinary event it would need to be of a magnitude that would not normally be expected in either the geographic area in which it occurred or the geographic area associated with the entity, and the provision of emergency services or the restoration of essential services would need to be outside the scope of ordinary activities of the entity concerned. Where an entity has responsibility for providing assistance to those affected by natural disasters, the costs associated with this activity would not generally meet the definition of an extraordinary item.

2.1.13 The restructuring of activities is an example of an event which would normally not be extraordinary for the entity. All three criteria within the definition of an extraordinary item must be satisfied before an item can be classified as extraordinary. A restructuring may clearly be distinct from the ordinary activities of the entity. It is only in circumstances where the restructuring is imposed by government or by an external regulator or other external authority that it could be classified as outside the control or influence of the entity.

2.1.14 The disclosure of the nature and amount of each extraordinary item may be made on the face of the statement of cash receipts and payments or

other financial statements that might be prepared or in the notes to those financial statements. An entity may also decide to disclose only the total amount of extraordinary items on the face of the statement of cash receipts and payments and the details in the notes.

Administered Transactions

2.1.15 An entity is encouraged to disclose in the notes to the financial statements, the amount and nature of cash flows and cash balances resulting from transactions administered by the entity as an agent on behalf of others where those amounts are outside the control of the entity.

2.1.16 The cash flows associated with transactions administered by an entity acting as an agent on behalf of others may not pass through a bank account controlled by the reporting entity. In these cases, the entity cannot use, or otherwise benefit from, the cash it administers in the pursuit of its own objectives. These cash flows are not controlled by the entity and therefore are not included in the totals shown on the face of the statement of cash receipts and payments or other financial statements that might be prepared. However, disclosure of the amount and nature of these transactions by major type is encouraged because it provides useful information on the scope of the entity's activities and it is relevant for an assessment of an entity's performance.

2.1.17 Where such cash receipts and payments pass through a bank account controlled by the entity, they are treated as cash flows and balances of the entity itself and included in the totals shown on the face of the statement of cash receipts and payments. Paragraph 1.3.13(a) of Part 1 of this Standard permits such cash receipts and payments to be reported on a net basis. Paragraphs 2.1.21 to 2.1.22 below provide guidance on the cash receipts, payments and balances that:

(a) May be controlled by a entity and will be reported in the statement of cash receipts and payments in accordance with Part 1 of this Standard; and

(b) Are administered transactions which will not be included on the face of the statement of cash receipts and payments or other financial statements that might be prepared but for which disclosure is encouraged.

2.1.18 – 2.1.20 [Refer to Appendix A]

"Pass-through" Cash Flows

2.1.21 In some cases, the administrative arrangements in place in respect of the revenue collection activities a government or government entity undertakes as an agent of another party may provide for the cash collected to be initially deposited in the entity's own bank account before it is transferred to the ultimate recipient. Cash flows arising as a consequence of these transactions are sometimes termed "pass-through" cash flows. In these cases, the entity will:

(a) Control the cash it collects in its capacity as an agent for the, usually short, period the cash is deposited in the entity's bank account prior to transfer to third parties;

(b) Usually benefit from any interest arising from amounts deposited in interest bearing accounts prior to its transfer to the other entity; and

(c) Have an obligation to transfer the cash collected to third parties in accordance with legislative requirements or administrative arrangements.

When cash inflows from administered transactions pass through a bank account controlled by the reporting entity, the cash receipts, cash transfers and cash balances arising from the collection activity will be included in the entity's statement of cash receipts and payments in accordance with paragraph 1.3.4(a)(i) of Part 1 of this Standard. Paragraph 1.3.13(a) of Part 1 of this Standard specifies that cash receipts and payments which arise from transactions the entity administers on behalf of other parties and which are recognised in the financial statements may be reported on a net basis.

Transfer Payments

2.1.22 Consistent with a government's objectives and with legislation or other authority, amounts appropriated to an entity may include amounts to be transferred to third parties in respect of, for example, pensions. In some cases, these amounts will pass through a bank account controlled by the entity. Where this occurs, the entity will recognise the cash appropriated for transfer during

the reporting period as a cash receipt, the amounts transferred during that reporting period as a cash payment and any amounts held at the end of the reporting period for transfer in the future as part of closing balance of cash.

Disclosure of Major Classes of Cash Flows

2.1.23 An entity is encouraged to disclose, either on the face of the statement of cash receipts and payments or other financial statements or in the notes to those statements:

(a) [Refer to Appendix A]

(b) proceeds from borrowings. In addition, the amount of borrowings may be further classified into type and source.

2.1.24 -2.1.29 [Refer to Appendix A]

2.1.30 Paragraph 1.3.12 of Part 1 of this Standard requires the disclosure of total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity's operations. The sub-classification of cash receipts into appropriate classes will depend upon the size, nature and function of the amounts involved. In addition to disclosure of the amount of receipts from external assistance and borrowings, the following sub-classifications may be appropriate:

(a) Receipts from taxation (these may be further sub-classified into types of taxes);

(b) Receipts from fees, fines, penalties and licenses;

(c) Receipts from exchange transactions including receipts from the sale of goods and services and user charges (where these are classified as exchange transactions);

(d) The purposes for which external assistance grants and loans are provided, the providers of that assistance and the amount provided;

(e) Receipts from other grants, transfers, or budget appropriations (possibly classified by source and purpose);

(f) Receipts from interest and dividends; and

(g) Receipts from gifts and donations.

Related Party Disclosures

2.1.31 An entity is encouraged to disclose in the notes to the financial statements information required by Accounting Standard for Local Bodies on "Related Party Disclosures."[5]

2.1.32 ASLB 20, in the accrual based series of ASLBs, defines related parties and other relevant terms, requires the disclosure of related party relationships where control exists and requires the disclosure of certain information about related party transactions, including information about aggregate remuneration of key management personnel.

Disclosure of Assets, Liabilities and Comparison with Budgets

2.1.33 An entity is encouraged to disclose in the notes to the financial statements:

(a) Information about the assets and liabilities of the entity; and

(b) A comparison with budgets

2.1.34 Entities control significant resources in addition to cash and deploy those resources in the achievement of service delivery objectives. They also borrow to fund their activities, incur other debts and liabilities in the course of their operations and make commitments to expend money in the future on the acquisition of capital assets. Non-cash assets and liabilities will not be reported on the face of the statement of cash receipts and payments or other financial statements that might be prepared under the cash basis of accounting. However, entities maintain records of, and monitor and manage, their debt and other liabilities and their non-cash assets. The disclosure of information about assets and liabilities and the costs of particular programs and activities will enhance accountability and is encouraged by this Standard.

[5] This ASLB is under formulation.

2.1.35 Entities that make such disclosures are encouraged to identify assets and liabilities by type, for example, by classifying:

(a) Assets as receivables, investments or property plant and equipment; and

(b) Liabilities as payables, borrowings by type or source and other liabilities.

While such disclosures may not be comprehensive in the first instance, entities are encouraged to progressively develop and build on them. In order to comply with the requirements of paragraphs 1.3.5 and 1.3.37 of Part 1 of this Standard, these disclosures will need to comply with qualitative characteristics of financial information and should be clearly described and readily understood. Accrual based ASLBs including ASLB on, "Leases"[6], ASLB 17 on, "Property, Plant and Equipment" and ASLB on "Provisions, Contingent Liabilities and Contingent Assets" can provide useful guidance to entities disclosing additional information about assets and liabilities.

Comparison with Budgets

2.1.36 Entities are typically subject to budgetary limits in the form of appropriations or other budgetary authority which may be given effect through authorising legislation. One of the objectives of financial reporting by these entities is to report on whether cash was obtained and used in accordance with the legally adopted budget. In some jurisdictions, this requirement is reflected in legislation. Entities which make publicly available their approved budgets are required to comply with the requirements of paragraphs 1.9.1 to 1.9.46 of Part 1 of this Standard. This Standard encourages other entities (that is, entities which do not make publicly available their approved budgets) to include in their financial statements the disclosure of a comparison of actual with the budgeted amounts for the reporting period where the financial statements and the budget are on the same basis of accounting. Reporting against budgets for these other entities may be presented in different ways, including:

(a) The preparation of a note with separate columns for budgeted amounts and actual amounts. A column showing any variances

[6] This Accounting Standard for Local Bodies is under preparation.

from the budget or appropriation may also be presented for completeness; and

(b) Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or payments made without appropriation or other form of authority, then details may be disclosed by way of note to the relevant item in the financial statements.

2.1.37 Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in the financial statements a cross reference to reports which include information about service achievements.

2.1.38 [Refer to Appendix A]

2.1.39 Additional budget information, including information about service achievements, may be presented in documents other than financial statements. Entities which disclose in their financial statements a comparison of actual with budgeted amounts are encouraged to include in their financial statements a cross reference to such documents, particularly to link budget and actual data to non-financial budget data and service achievements.

2.1.40 [Refer to Appendix A]

Consolidated Financial Statements

2.1.41 An entity is encouraged to disclose in the notes to the financial statements:

(a) The proportion of ownership interest in controlled entities and, where that interest is in the form of shares, the proportion of voting power held (only where this is different from the proportionate ownership interest);

(b) Where applicable:

i. The name of any controlled entity in which the controlling entity holds an ownership interest and/or voting rights of

50% or less, together with an explanation of how control exists; and

ii. *The name of any entity in which an ownership interest of more than 50% is held but which is not a controlled entity, together with an explanation of why control does not exist; and*

(c) *In the controlling entity's separate financial statements, a description of the method used to account for controlled entities.*

2.1.42 A controlling entity which does not present a consolidated statement of cash receipts and payments is encouraged to disclose the reasons why the consolidated financial statements have not been presented together with the basis on which controlled entities are accounted for in its separate financial statements. It is also encouraged to disclose the name and the principal address of its controlling entity that publishes consolidated financial statements.

2.1.43 Paragraph 1.6.20(b) of Part 1 of this Standard requires that the reasons for non-consolidation of a controlled entity should be disclosed. Paragraph 1.6.7 of Part 1 of the Standard also provide that a controlling entity that is itself a wholly owned entity or a controlling entity that is virtually wholly owned, need not present a consolidated financial statement. When this occurs, the disclosure of the information in paragraph 2.1.42 above is encouraged.

Acquisitions and Disposals of Controlled Entities and Other Operating Units

2.1.44 An entity is encouraged to disclose and present separately the aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units.

2.1.45 An entity is encouraged to disclose in the notes to the financial statements, in aggregate in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:

(a) *The total purchase or disposal consideration (including cash or other assets);*

(b) The portion of the purchase or disposal consideration discharged by means of cash; and

(c) The amount of cash in the controlled entity or operating unit acquired or disposed of.

2.1.46 The separate presentation of the cash flow effects of acquisitions and disposals of controlled entities and other operations, together with the separate disclosure of the amounts of assets and liabilities acquired or disposed of, helps to distinguish those cash flows from cash receipts and payments arising from the other activities of the entity. To enable users to identify the effects of both acquisitions and disposals, the cash flow effects of disposals should not be deducted from those acquisitions.

2.1.47 The aggregate amount of the cash paid or received as purchase or sale consideration is reported in the statement of cash receipts and payments net of cash acquired or disposed of.

2.1.48 Paragraph 2.1.33 encourages the disclosure of assets and liabilities of the entity. Assets and liabilities other than cash of a controlled entity or operating unit acquired or disposed of may also be separately disclosed, summarised by each major category. Consistent with the requirement of paragraph 1.3.37 of Part 1 of this Standard, where such disclosure is made, the assets and liabilities should be clearly identified and the basis on which they are recognised and measured explained.

Joint Ventures

2.1.49 An entity is encouraged to make disclosures about joint ventures which are necessary for a fair presentation of the cash receipts and payments of the entity during the period and the balances of cash as at reporting date.

2.1.50 Many entities establish joint ventures to undertake a variety of activities. The nature of these activities range from commercial undertakings to provision of community services at no charge. The terms of a joint venture are set out in a contract or other binding arrangement and usually specify the initial contribution from each joint venturer and the share of revenues or other benefits (if any) and expenses of each of the joint venturers. Entities which report on a cash basis will generally report:

(a) As cash payments, the cash expended in the acquisition of an interest in a joint venture and in the ongoing operations of the joint venture; and

(b) As cash receipts, the cash received from the joint venture.

Disclosures about joint ventures may include a listing and description of interests in significant joint ventures. Accounting Standard for Local Bodies on "Interests in Joint Ventures"[7] This Accounting Standard for Local Bodies is under preparation in the accrual based series of ASLBs provides guidance on the different forms and structures that joint ventures may take and potential additional disclosures that might be made.

2.1.51-2.1.63 [Refer to Appendix A]

Assistance Received From Non-Governmental Organisations (NGOs)

2.1.64 Where practicable, an entity is encouraged to apply to assistance received from non-governmental organisations (NGOs), the required disclosures identified in paragraphs *1.10.1 to 1.10.27 of Part 1 of this Standard and the encouraged disclosures identified in paragraphs 2.1.66 to 2.1.93 below.*

2.1.65 Reporting entities are not required to make the disclosures identified in paragraphs 1.10.1 to 1.10.27 of Part 1 in respect of assistance received from non-governmental organisations (NGOs). This is because the costs of collecting and aggregating the information necessary to comply with those requirements may be greater than its benefits. However, making the disclosures about assistance received from NGOs which are identified in paragraphs 1.10.1 to 1.10.27, together with the disclosures encouraged in paragraphs 2.1.66 to 2.1.93 below can provide additional input to assessments of the extent to which the reporting entity is dependent on assistance from these organisations to support its activities. Accordingly, reporting entities are encouraged to apply the disclosures identified in this Standard to assistance received from NGOs, where it is practicable to do so.

[7] This Accounting Standard for Local Bodies is under preparation.

Recipients of External Assistance

2.1.66 An entity is encouraged to disclose in notes to the financial statements:

(a) The purposes for which external assistance was received during the reporting period, showing separately amounts provided by way of loans and grants; and

(b) The purposes for which external assistance payments were made during the reporting period.

2.1.67 An entity may receive external assistance for many purposes including assistance to support its:

(a) Economic development or welfare objectives, often termed development assistance;

(b) Emergency relief objectives, often termed emergency assistance; and

(c) [Refer to Appendix A]

(d) [Refer to Appendix A]

(e) Trading activities, including export credits or loans offered by export/import banks or other government agencies, often termed trade finance.

2.1.68 Part 1 of this Standard requires disclosure of the total amount of external assistance received during the reporting period showing separately the total amount received by way of grants and loans. Disclosure of external assistance received by way of loan or grant will enable users to determine the purposes for which assistance was provided during the period, the amounts thereof and whether the entity has an obligation to repay the assistance provided at some time in the future.

2.1.69 Disclosure of the purposes for which external assistance payments were made during the reporting period will further enhance the entity's accountability for its use of external assistance received.

2.1.70 An entity is encouraged to identify in notes to the financial statements each provider of external assistance during the reporting period and the amount provided, excluding any undrawn amounts, showing separately amounts provided by way of loans and grants in the currency provided.

2.1.71 Disclosure of each provider of external assistance and the amount provided by way of loan and grant will indicate the extent of diversification of sources of assistance. This will assist readers of the financial statements to determine, for example, whether the entity is dependent on particular agencies for assistance, the extent of that dependency and the currency in which it was provided, and whether the assistance is provided by way of a grant or a loan which will need to be repaid in the future. The disclosure encouraged by this paragraph excludes amounts that have not been drawn down during the period. Paragraph 2.1.72 encourages disclosure of information about undrawn amounts of external assistance in certain circumstances.

2.1.72 In respect of external assistance that is undrawn at reporting date and is disclosed in accordance with paragraph 1.10.18 of Part 1 of this Standard*, an entity is encouraged to disclose in notes to the financial statements:*

(a) Each provider of loan assistance and grant assistance and the amount provided by each;

(b) The purposes for which the undrawn loan assistance and undrawn grant assistance may be used;

(c) The currency in which the undrawn assistance is held or will be made available; and

(d) Changes in the amount of undrawn loan assistance and undrawn grant assistance during the period.

2.1.73 Undrawn external assistance balances are required to be disclosed in certain circumstances by paragraph 1.10.18 of Part 1 of this Standard. The disclosures encouraged by paragraph 2.1.72 will enable readers of the financial statements to determine the purposes for which such undrawn assistance may be used in the future, the currency in which that undrawn assistance is held or will be made available, and whether the amount of undrawn loan and grant assistance declined or increased during the period.

2.1.74 As is appropriate for the reporting entity, the disclosures could usefully identify such matters as the opening balance of undrawn loans and grants, the amount of new loans and new grants approved or otherwise made available during the period, the total amount of loans and grants drawn or utilised during the period, the total amounts of loans and grants cancelled or expired during the period, and the closing balance of undrawn loans and grants. Such disclosures will assist users in identifying not only the amount of the change in undrawn balances, but also the components of that change.

2.1.75 Where disclosures of changes in the amount of undrawn assistance are made in the entity's reporting currency, external assistance denominated in a foreign currency will be reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate on the date of each applicable transaction, consistent with the requirements of Part 1 of this Standard.

2.1.76 An entity is encouraged to disclose in notes to the financial statements the terms and conditions of external assistance agreements that determine or affect access to, or limit the use of, external assistance.

2.1.77 Some external assistance agreements limit or specifically define the use or purpose for which the external assistance may be used, or limit the sources from which goods or services may be purchased. This type of external assistance term or condition may specify that the funds are available only to purchase specific inputs for the construction of specified facilities at a specified location, or that the goods or services purchased under the external assistance agreement must originate from a specified country or countries.

2.1.78 Some external assistance may be released on specific dates, or may be released upon the entity:

(a) Undertaking actions specified in an external assistance agreement, such as implementing specific policy changes; or

(b) Achieving ongoing performance targets, such as budget deficit targets or other broad economic objectives.

2.1.79 Disclosure of terms and conditions that determine or affect access to external assistance will indicate the extent to which external assistance is time bound and/or is dependent upon the entity taking certain actions and achieving

certain performance objectives, and what those actions and performance objectives are.

2.1.80 An entity is encouraged to disclose in notes to the financial statements:

(a) The outstanding balance of any external assistance loans for which principal and/or interest payments have been guaranteed by third parties, any terms and conditions related to those loans, and any additional terms and conditions arising from the guarantee; and

(b) The amount and terms and conditions of external assistance loans and grants for which performance of related terms and conditions have been guaranteed by third parties, and any additional terms and conditions arising from the guarantee.

2.1.81 The balance of external assistance loans borrowed by an entity and payment of interest thereon may be guaranteed, in total or up to a specified amount. Terms and conditions associated with the loans may also require the recipient to take certain actions, or achieve agreed outcomes such as setting tariffs according to an agreed formula, the performance of which are guaranteed by third parties. External assistance grants may also be subject to similar terms and conditions, the performance of which are guaranteed by third parties.

2.1.82 Disclosure of the amounts of external assistance loans and grants guaranteed by third parties will indicate the extent of support from another entity to obtain the benefits of the external assistance agreement. Disclosure of the terms and conditions of external assistance loans and grants that have been guaranteed, and any additional terms and conditions imposed to effect that guarantee, will indicate the additional performance requirements or conditions that arise as a consequence of securing the guarantee.

2.1.83 An entity is encouraged to disclose in notes to the financial statements other significant terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with, together with the consequence of the non compliance.

2.1.84 Paragraph 1.10.25 of Part 1 of this Standard requires the disclosure of significant terms and conditions that have not been complied with when non compliance has resulted in cancellation of the assistance or given rise to an obligation to return assistance previously provided. External assistance

agreements may also include other significant terms and conditions that are to be complied with, as well as some procedural terms and conditions. Consequences of non compliance with these other significant terms and conditions may include a reduction in the amount, or variation in the timing, of funds that may be drawn or made available in the future until the default is corrected. They may also include an increase in the interest rate charged on loan funds.

2.1.85 Identifying these other significant terms and conditions which have not been complied with is likely to require professional judgment. That judgment will be exercised in the context of the entity's particular circumstances and by reference to the qualitative characteristics of financial statements. These terms and conditions are likely to be those where non compliance is likely to affect the amount or timing of funds that will be available to support the entity's future operations.

2.1.86 An entity is encouraged to disclose in the notes to the financial statements, a summary of the repayment terms and conditions of outstanding external assistance debt. Where disclosures of future debt service payments denominated in a foreign currency are made, the entity is encouraged to report them in the entity's reporting currency by applying to the foreign currency amount of those payments the closing rate.

2.1.87 External assistance debt agreements will include terms and conditions relating to such matters as the grace period, interest rate, current debt service payments, future debt service payments, remaining term of the loan, currency of debt service payments, principal repayment requirements (where repayment of the principal is deferred until the end of the loan term, or some other future date), and other significant repayment terms.

2.1.88 Debt service payments may be a significant cash outlay for the entity and will impact on cash available to fund current and additional operations. Disclosure of repayment terms and conditions of outstanding external assistance debt will enable readers of the financial statements to determine when debt service payments (principal and interest or service charges) will commence, and the amount of principal and interest or service charge payable.

2.1.89 Disclosure of information about repayment terms and conditions may require the estimation of, for example, the interest rate to be applied to variable

rate debt. The estimated interest rate will usually be determined by reference to applicable interest rates at the closing date. In accordance with the requirements of paragraphs 1.3.30 to 1.3.37 of Part 1 of this Standard, when an entity elects to make disclosures which involve estimates, the accounting policies selected and applied in developing such estimates will be disclosed where necessary for a proper understanding of the financial statements.

2.1.90 An entity is encouraged to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services.

2.1.91 Significant resources may be received under external assistance agreements in the form of goods or services. This will occur when new or used goods such as vehicles, computers or other equipment are transferred to the entity under an external assistance agreement. It will also occur when food aid is provided to a local body for distribution to its citizens under an external assistance agreement. For some recipients, goods or services may be the major form in which external assistance is received.

2.1.92 Disclosure of the value of external assistance received as goods and services will assist readers of the financial statements to better understand the full extent of external assistance received during the reporting period. However, in some cases and for some recipients, determining the value of such goods and services can be a difficult, time consuming and costly process. This is particularly so where a domestic market price for those goods and services cannot be readily determined, where the goods and services provided are not widely traded in international markets or where they are of an unique nature, such as often occurs in respect of emergency assistance.

2.1.93 This Standard does not specify the basis on which the value of the goods or services is to be determined. Therefore, their value may be determined as the depreciated historical cost of physical assets at the time the assets are transferred to the recipient or the price paid for the food by the external assistance agency. It may also be determined on the basis of an assessment of the value by management of the transferor, or the recipient, or by a third party. Where the value of external assistance in the form of goods or services is disclosed, paragraph 1.10.21 of Part 1 of this Standard requires the disclosure of the basis on which that value is determined. Where such is described as fair value it will conform with the definition of fair value that is, the amount for which an asset

could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

2.2 Governments and Other Public Sector Entities Intending to Migrate to the Accrual Basis of Accounting

Presentation of the Statement of Cash Receipts and Payments

2.2.1 An entity which intends to migrate to the accrual basis of accounting is encouraged to present a statement of cash receipts and payments in the same format as that required by Accounting Standard for Local Bodies (ASLB) on, "Cash Flow Statements."[8]

2.2.2 Part 2 of this Standard encourages disclosure of information additional to that required by ASLB 2. Entities which adopt the format of ASLB 2 for the presentation of the statement of cash receipts and payments are encouraged to also make the additional disclosures identified in Part 2 of this Standard.

Scope of Consolidated Statements - Exclusions from the Economic Entity

2.2.3 When an entity adopts the accrual basis of accounting in accordance with the accrual ASLBs, it will not consolidate entities in which control is intended to be temporary because the controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future. Temporary control may occur where, for example, a local body intends to transfer its interest in a controlled entity to a government or another entity.

2.2.4 Part 1 of this Standard does not provide for such entities to be excluded from the consolidated financial statements prepared under the cash basis. This is because:

(a) The cash of an entity which is controlled on only a temporary basis can be used for the benefit of the economic entity during the period of temporary control; and

[8] This Accounting Standard for Local Bodies is under preparation.

(b) The potentially complex consolidation adjustments that may be necessary under the accrual basis will not arise under the cash basis.

2.2.5 For this exemption from consolidation to apply under the accrual ASLBs, the controlling entity must be demonstrably committed to a formal plan to dispose of, or no longer control, the entity that is subject to temporary control. For the exemption to apply at more than one successive reporting date, the controlling entity must demonstrate an ongoing intent to dispose of, or no longer control, the entity that is subject to temporary control. An entity is demonstrably committed to dispose of, or no longer control, another entity when it has a formal plan to do so and there is no realistic possibility of withdrawal from that plan.

2.2.6 Entities preparing to migrate to the accrual basis will need to be aware of this difference in consolidation requirements of the accrual and cash basis ASLBs, and to determine whether, for any controlled entities included in the consolidated statement of receipts and payments, control is temporary.

Appendix 2

Illustration of Certain Disclosures Encouraged in Part 2 of the Standard

This appendix is illustrative only. The purpose of the appendix is to illustrate the application of the encouragements and to assist in clarifying their meaning.

Extract from notes to financial statements of Entity ABC

Administered Transactions (paragraph 2.1.15)

Administered transactions comprise cash flows resulting from transactions administered by the Entity as an agent on behalf of the government and specific government bodies. All cash collected in the capacity of an agent is deposited in a separate bank account. These accounts are not controlled by the Entity and the cash deposited in them cannot be used by the Entity without specific authorisation by the relevant government body.

(Rupees in lakhs)

	Nature of Transaction	**20XX-XX**	**20XX-XX-1**
Cash collected on behalf of State Government	Library cess	X	X
Election Commission	Enrolment fees	X	X
		X	X
Cash transferred to respective entities		(X)	(X)
		—	—

Extract from notes to financial statements of Local Body X

Assets and Liabilities (paragraph 2.1.33(a))

Property, plant and equipment

The local body commenced the process of identifying and valuing major classes of its property, plant and equipment. The assets are stated at historical cost, wherever available, or valuation. The valuations were performed by an independent professional valuer.

(rupees in lakhs)	**200X**	**200X-1**
Plant and equipment	X	X
Land and buildings		
Land	X	X
Buildings	X	X
	X	X

(*Extract from notes to financial statements of Local Body X: Assets and Liabilities (paragraph 2.1.33(a) continued)*

Borrowings

The borrowings of the Government are listed below:

(rupees in lakhs)	**20XX-XX**	**20XX-XX-1**
Balance at beginning of year	X	X
BORROWINGS		
From banks	X	X
From financial institutions	X	X
From Development Banks and Similar Lending Agencies	X	X
Total borrowings	X	X

REPAYMENTS		
To banks	(X)	(X)
To financial institutions	(X)	(X)
To Development Banks and Similar Lending Agencies	(X)	(X)
Total repayments	(X)	(X)
Balance at end of year	X	X

Extract from notes to financial statements of local Body X continued)

Comparison with budget (paragraph 2.1.33(b)

(rupees in lakhs)	**Actual**	**Budgeted**	**Variance**
RECEIPTS			
Tax receipts			
Property tax	X	X	X
Advertisement tax	X	X	X
Other taxes	X	X	(X)
Non tax receipts			
Fees and fines	X	X	X
Receipts from trading activities	X	X	X
Others	X	X	X
Grants in aid			
Government	X	X	—
International agencies	X	X	—
Other Grants and Aid	X	X	—

Borrowings			
Government	X	X	(X)
Banks	X	X	(X)
Other agencies	X	X	(X)
Capital Receipts			
Proceeds from disposal of assets	X	X	X
Other receipts	X	X	X
Total receipts	X	X	X
PAYMENTS			
Operations			
Wages, salaries and employee benefits	(X)	(X)	(X)
Other operational expenses	(X)	(X)	(X)
Grants and contributions			
Grants	(X)	(X)	-
Other transfers	(X)	(X)	-
Capital Expenditures			
Purchase/construction of fixed assets	(X)	(X)	(X)
Loan and Interest Repayments			
Repayment of borrowings	(X)	(X)	-
Interest payments	(X)	(X)	-
Other payments	(X)	(X)	(X)
Total payments	(X)	(X)	(X)
NET RECEIPTS/ (PAYMENTS)	**X**	**X**	**X**

Extract from notes to financial statements of Entity XYZ

Controlled Entities *(paragraphs 2.1.41, 2.1.44 and 2.1.45)*

Entity XYZ has the power to govern the financial and operating policies so as to benefit from the activities of other entities. These are controlled entities. All controlled entities are included in the consolidated financial statements. (Paragraph 1.6.20(a) in Part 1 of this Standard requires that a list of significant controlled entities be disclosed.)

Enterprise	**Nature of controlling interest**	**Ownership Interest (%)**	**Voting Power (%)**
Enterprise A		XX	XX
Enterprise B		XX	XX
Enterprise C		XX	XX
Enterprise D		XX	XX
Enterprise E		XX	XX

Significant Joint Ventures (paragraph 2.1.49)

Name of Joint Venture	**Principal Activity**	**Interest**	
		20XX-XX%	**20XX-XX-1%**
		XX	XX
		XX	XX

Extract From Notes to the Financial Statements of Local body C

Assistance Provided by Non-Governmental Organisations (NGOs) *(Paragraph 2.1.64)*

Assistance from NGOs is included in the amount of "Other Grants and Aid" in the Statement of Cash Receipts and Payments. The amount of assistance from NGOs received during the reporting period in the reporting currency is:

	20XX		20XX-XX-1	
	Cash Receipts	**Payments by third parties**	**Cash Receipts**	**Payments by third parties**
Grant Funds	X	X	X	—
Loan Funds	—	—	—	—
Total	**X**	**X**	**X**	—

Assistance was received from NGOs under agreements specifying that the assistance would be utilised for the following purposes:

	Development Assistance		Emergency Assistance		Other		Total	
	20XX	**20XX-XX-1**	**20XX**	**20XX-XX-1**	**20XX**	**20XX-XX-1**	**20XX**	**20XX-XX-1**
NGO 1	X	X	—	—	—	X	X	X
NGO 2	—	—	X	—	—	—	X	—
NGO 3	X	X	X	—	—	—	X	X
Total	**X**	**X**	**X**	—	—	**X**	**X**	**X**
USD	X	X	X	X	—	X	X	X
Euro	X	X	X	—	—	—	X	X
Yen	—	—	X	X	—	—	X	X

The currency in which external assistance was provided was as follows:

- NGO 1 – US Dollars to the amount of YYY and other currency being (specify currency) to the amount of X
- NGO 2 – Euros to the amount of YYY
- NGO 3 – Yen to the amount of YYY

The assistance was fully used for the purposes specified.

While NGO 1, 2 and 3 have indicated their intention to provide ongoing emergency assistance as the need arises and their resources allow, the extent of the assistance is not subject to binding written agreements. It will be determined on the basis of an assessment of needs and the capacity of each NGO to provide ongoing assistance.

During 200X, NGO 1 provided medical teams and medical equipment in support of earthquake victims in the ZZZ region. Temporary shelter, food and clothing were also supplied by NGO 2. The value of the goods and services received has been estimated at XX rupees. The value of the specialised emergency assistance provided has been determined based on cost estimates provided by the NGOs involved.

There have been no instances of non-compliance with terms and conditions which have resulted in cancellation of assistance grants.

There were no amounts of undrawn assistance from NGOs in 20XX or 20XX-XX-1.

Extract From Notes to the Financial Statements of Local body C Classes of External Assistance *(Paragraph 2.1.66 and 2.1.70)*

During the reporting period external assistance was received from multilateral and bilateral external assistance agencies under agreements specifying that the assistance would be utilised for the following purposes:

	Development Assistance		Emergency Assistance		Other		Total	
	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1
Loan Funds	X	X	-	-	X	-	X	X
Grant Funds	X	-	X	X	-	-	X	X
Total	X	X	X	X	X	-	X	X
Amount utilised	X	X	X	X	X	-	X	X
% utilised	**X**	**X**	**X**	**X**	**X**	**-**	**X**	**X**

	Agency 1		Agency 2		Agency 3		Agency 4	
	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1
Loan Funds	X	X	-	-	X	-	X	X
Grant Funds	X	-	X	X	-	X	X	X
Total	X	X	X	X	X	X	X	X
Currency: US Dollar	X	X	-	-	-	-	-	-
Euro	-	-	X	X	-	-	-	-
Yen	-	-	-	-	X	X	-	-
Other	-	-	-	-	-	-	X	X

Undrawn External Assistance *(Paragraph 2.1.72)*

Undrawn external assistance loans and grants consist of amounts which have been specified in a binding agreement with external assistance agencies but have not been utilised at reporting date, and are subject to terms and conditions that have been satisfied in the past and it is anticipated will be satisfied in the future. External assistance loans cancelled or expired due to non-incurrence of budgeted expenditure on development projects. Changes in the amount of undrawn assistance loans and grants are presented in rupees.

	Development Assistance		**Emergency Assistance**		**Other**		**Total**	
	20XX	**20XX-XX-1**	**20XX**	**20XX-XX-1**	**20XX**	**20XX-XX-1**	**20XX**	**20XX-XX-1**
Opening balance								
Loans	X	X	-	-	X	X	X	X
Grants	X	X	-	X	-	-	X	X
Approved during the period								
Loans	X	X	-	-	X	-	X	X
Grants	X	X	X	X	X	X	X	X
Total available	X	X	X	X	X	X	X	X
Loans drawn	(X)	(X)	-	-	(X)	(X)	(X)	-
Grants drawn	(X)	(X)	(X)	(X)	-	-	(X)	(X)
Loans cancelled/ expired	(X)	(X)	-	-	-	-	(X)	(X)
Grants cancelled/ expired	-	-	-	-	-	-	-	-
Exchange difference	X	X	-	-	X	X	X	X
Closing balance– Loans	X	X	-	-	X	X	X	X
Closing balance- Grants	X	X	-	-	X	X	X	X

Closing balance By currency held	Development Assistance		Emergency Assistance		Other		Total	
	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1	20XX	20XX-XX-1
US Dollar	X	X	-	X	X	X	X	X
Euro	X	X	-	X	X	X	X	X
Yen	X	X	-	-	X	X	X	X
Other	X	X	-	-	-	-	X	-
in rupees								
Loans								
Agency 1	X	X	-	-	X	X	X	X
Agency 4	X	X	-	-	X	X	X	X
Grants								
Agency 2	X	X	-	X	X	X	X	X
Agency	X	X	-	X	X	X	X	X
Total	X	X	-	X	X	X	X	X

Significant terms and conditions *(Paragraph 2.1.76)*

General Restrictions

The balance of commitments for and undrawn balances of, external assistance is subject to, or restricted by, performance of agreed actions or the maintenance of agreed economic or financial performance levels.

The Local body has prepared an economic development plan for receipt of development assistance. The plan includes a poverty reduction strategy which is supported by the donor community. The Local body and the donors have agreed the following major targets within the poverty reduction strategy: (Entity to identify major targets).

The Local body and the donor community have agreed on methods to monitor progress to achieve the agreed targets and will meet annually to review progress.

Loans and grants to support specific projects include financial performance targets for all electricity and water utilities to ensure adequate revenue to cover the cost of providing services, to properly maintain existing utility assets and to contribute to a program of asset replacement and renewal.

Procurement Restrictions

Certain development assistance received is subject to restrictions in regards to the nature of goods or services that may be purchased or the country in which the goods or services may be purchased. All multilateral development bank loans or grants are restricted in that (a) they prohibit the use of their funds for the purchase of military goods or services, luxury goods or environmentally damaging goods; and (b) the purchase of goods or services must be from their respective member countries. External assistance from bilateral agencies is either unrestricted or limited to purchases of goods or services from the country providing the funds.

Non Compliance with other significant terms and conditions *(Paragraph 2.1.83)*

The Local Body's expenditures on primary education did not meet the target level primarily due to construction delays caused by an earthquake. Expenditures were X percent below the target. Steps have been taken to correct the under investment and the relevant donors support the corrective actions planned. The Local Body has complied with all procurement regulations applicable under all outstanding external assistance loans and grants.

Guarantees of external assistance loans and grants *(Paragraph 2.1.80)*

The State Government has guaranteed an infrastructure loan from XXX Bank of rupees X lakhs. (20XX-XX-1: Nil). The principal is to be repaid in XX years. The interest rate applicable to the outstanding balance is Y percent. Interest payments are to be made annually. No additional terms or conditions arise from the guarantee. No other external assistance loans or grants are subject to guarantees by third parties.

Repayment Terms and Conditions-Debt Service Obligations *(Paragraph 2.1.86)*

The terms of development assistance loans include grace periods which range from 0 to a maximum of 7 years. Interest rates include both fixed rates and variable rates. All development assistance loans are denominated in US Dollars or Euros. Interest rates on fixed rate loans as at fiscal year ending 20XX-XX, range from X percent to Y percent with a weighted average of Z percent. For the fiscal year ending 20XX-XX-1, they range from A percent to B percent with a weighted average of C percent. Interest rates on variable rate loans range from

LIBOR plus P percent to LIBOR plus Q percent with a weighted average at the end of fiscal year 20XX-XX of R percent and at the end of fiscal year 20XX-XX-1 of S percent.

Other external assistance loans do not include a grace period, and are denominated in a range of currencies including US Dollars, Euros and Yen.

	20XX-XX Outstanding Debt by Remaining Grace Period Years			
	Expired	0 – 4	5 – 7	Total
Development Assistance	X	X	X	X
Other	X	-	-	X
Total	X	X	X	X

	20XX-XX Outstanding Debt by Remaining Grace Period Years			
	Expired	0 – 4	5 – 7	Total
Development Assistance	X	X	X	X
Other	X	-	-	X
Total	X	X	X	X

	20XX-XX Debt Service Payments Including Interest				
	US Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	-	-	X
Total	X	X	X	X	X

	20XX-XX Debt Service Payments Including Interest				
	US Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	-	-	X
Total	X	X	X	X	X

All debt service payments for subsequent years are based on payment of a fixed amount comprising principal plus accrued interest. The interest payment or service charge component is based on the outstanding principal of each loan at the end of the current year, and for variable interest rate loans, at interest rates prevailing at that date. Debt service payments denominated in foreign currency have been determined by applying the closing rate of exchange on the reporting date of the financial statements.

	20XX-XX+1 and N Subsequent Years Debt Service Payments Including Interest				
	US Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Other	X	X	-	-	X
Total	X	X	X	X	X

Receipt of Goods and Services *(Paragraph 2.1.90 and 1.10.21 of part 1)*

During 20XX-XX, a severe earthquake occurred in the ZZZ region inflicting serious damage to property of a local body and private property, and significant loss of life. Multilateral agencies and bilateral agencies of several nations donated personnel and equipment to assist in locating and rescuing individuals trapped in the rubble. In addition, specialised medical teams trained in trauma treatment together with medical equipment, were flown into the region. Temporary shelter and food were also supplied. The value of goods and services received has been estimated at XX rupees. The value of the emergency assistance provided has been determined based on cost estimates provided by the bilateral aid agencies involved because local prices for equivalent goods or services were not available.

Fifty thousand tons of rice was received as food aid during the year. It has been valued at XX rupees which represents the wholesale price of similar rice in domestic wholesale markets.

Goods and services received during the year have not been recorded in the Statement of Cash Receipts and Payments, which reflects only cash received (directly or indirectly) or paid by the Government. Goods and services-in-kind were received as part of the emergency assistance and are reflected in this note.

Appendix 3

[Refer to Appendix A]

Appendix 4

Qualitative Characteristics of Financial Reporting

Paragraph 1.3.32 of Part 1 of this Standard requires that the financial statements provide information that meets a number of qualitative characteristics. This appendix summarises the qualitative characteristics of financial reporting.

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. They are applicable to financial statements, regardless of the basis of accounting used to prepare the financial statements. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

Relevance

Information is relevant to users if it can be used to assist in evaluating past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

Materiality

The relevance of information is affected by its nature and materiality.

Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statement. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a

threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Reliability

Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

Faithful Representation

For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

Substance Over Form

If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form.

Neutrality

Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgment in order to achieve a predetermined result or outcome.

Prudence

Prudence is the inclusion of a degree of caution in the exercise of the judgments needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated.

Completeness

The information in financial statements should be complete within the bounds of materiality and cost.

Comparability

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the:

- Comparison of financial statements of different entities; and
- Comparison of the financial statements of the same entity over periods of time.

An important implication of the characteristic of comparability is that users need to be informed of the policies employed in the preparation of financial statements, changes to those policies and the effects of those changes.

Because users wish to compare the performance of an entity over time, it is important that the financial statements show corresponding information for preceding periods.

Constraints on Relevant and Reliable Information

Timeliness

If there is an undue delay in the reporting of information it may lose its relevance. To provide information on a timely basis it may often be necessary to report before all aspects of a transaction are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. In achieving a balance between relevance and reliability, the overriding consideration is how best to satisfy the decision-making needs of users.

Balance between Benefit and Cost

The balance between benefit and cost is a pervasive constraint. The benefits derived from information should exceed the cost of providing it. The evaluation of benefits and costs is, however, substantially a matter of judgment. Furthermore, the costs do not always fall on those users who enjoy the benefits. Benefits may

also be enjoyed by users other than those for whom the information was prepared. For these reasons, it is difficult to apply a benefit-cost test in any particular case. Nevertheless, standard setters, as well as those responsible for the preparation of financial statements and users of financial statements, should be aware of this constraint.

Balance between Qualitative Characteristics

In practice a balancing, or trade-off, between qualitative characteristics is often necessary. Generally the aim is to achieve an appropriate balance among the characteristics in order to meet the objectives of financial statements. The relative importance of the characteristics in different cases is a matter of professional judgment.

Appendix 5

Establishing Control of Another Entity for Financial Reporting Purposes

1. Whether an entity controls another entity for financial reporting purposes is a matter of judgment based on the definition of control in this Standard and the particular circumstances of each case. That is, consideration needs to be given to the nature of the relationship between the two entities. In particular, the two elements of the definition of control in this Standard need to be considered. These are the power element (the power to govern the financial and operating policies of another entity) and the benefit element (which represents the ability of the controlling entity to benefit from the activities of the other entity).

2. For the purposes of establishing control, the controlling entity needs to benefit from the activities of the other entity. For example, an entity may benefit from the activities of another entity in terms of a distribution of its surpluses (such as a dividend) and is exposed to the risk of a potential loss. In other cases, an entity may not obtain any financial benefits from the other entity but may benefit from its ability to direct the other entity to work with it to achieve its objectives. It may also be possible for an entity to derive both financial and non-financial benefits from the activities of another entity.

Control for Financial Reporting Purposes

3. For the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement. The power to control is not presently exercisable if it requires changing legislation or renegotiating agreements in order to be effective. This should be distinguished from the fact that the existence of the power to control another entity is not dependent upon the probability or likelihood of that power being exercised.

4. Similarly, the existence of control does not require an entity to have responsibility for the management of (or involvement in) the day-to-day operations of the other entity. In many cases, an entity may only exercise its power to control another entity where there is a breach or revocation of an agreement between a controlled entity and its controlling entity.

5. [Refer to Appendix A]

6. The existence of separate legislative powers does not, of itself, preclude an entity from being controlled by another entity. The existence of control does not require an entity to have responsibility over the day-to -day operations of another entity or the manner in which professional functions are performed by the entity.

7. The power of one entity to govern decision-making in relation to the financial and operating policies of another entity is insufficient, in itself, to ensure the existence of control as defined in this Standard. The controlling entity needs to be able to govern decision-making so as to be able to benefit from its activities, for example by enabling the other entity to operate with it as part of an economic entity in pursuing its objectives. This will have the effect of excluding from the definitions of a "controlling entity" and "controlled entity" relationships which do not extend beyond, for instance, that of a liquidator and the entity being liquidated, and would normally exclude a lender and borrower relationship. Similarly, a trustee whose relationship with a trust does not extend beyond the normal responsibilities of a trustee would not be considered to control the trust for the purposes of this Standard.

Regulatory and Purchase Power

8. Governments and government entities have the power to regulate the behavior of many entities by use of their sovereign or legislative powers. Regulatory and purchase powers do not constitute control for the purposes of financial reporting. To ensure that the financial statements of a entity include only those resources (cash, including cash equivalents) that it controls and can benefit from, the meaning of control for the purposes of this Standard does not extend to:

(a) The power of the legislature to establish the regulatory framework within which entities operate and to impose conditions or sanctions on their operations. For example, a pollution control authority may have the power to close down the operations of entities that are not complying with environmental regulations. However, this power does not constitute control because the pollution control authority only has the power to regulate; or

(b) [Refer to Appendix A]

Determining Whether Control Exists for Financial Reporting Purposes

9. Public sector entities may create other entities to achieve some of their objectives. In some cases, it may be clear that an entity is controlled, and hence should be consolidated. In other cases it may not be clear. Paragraphs 10 and 11 below provide guidance to help determine whether or not control exists for financial reporting purposes.

10. In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

Power conditions

(a) [Refer to Appendix A]

(b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the governing body of the other entity.

(c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a meeting of the other entity.

(d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

Benefit conditions

(a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example, the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.

b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.

11. When one or more of the conditions listed in paragraph 10 do not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

Power indicators

(a) The entity has the ability to veto operating and capital budgets of the other entity.

(b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.

(c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity.

(d) The mandate of the other entity is established and limited by legislation.

(e) [Refer to Appendix A]

Benefit indicators

(a) The entity holds direct or indirect title to the net assets/equity of the other entity with an ongoing right to access these.

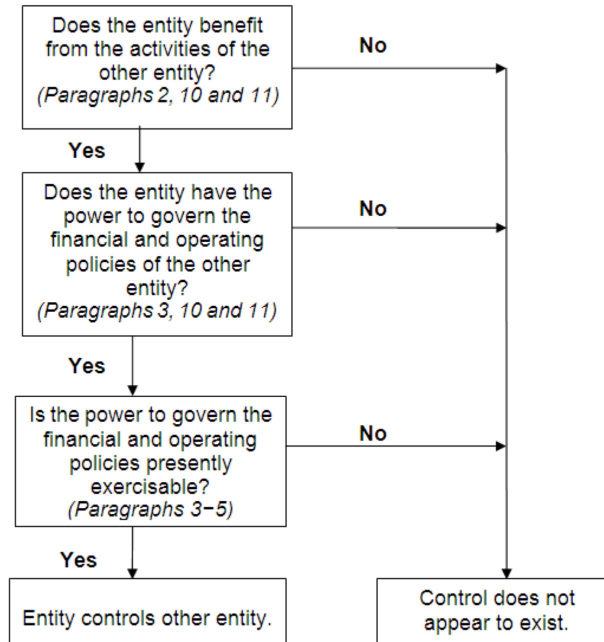
(b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation or in a distribution other than a liquidation.

(c) The entity is able to direct the other entity to co-operate with it in achieving its objectives.

(d) The entity is exposed to the residual liabilities of the other entity.

12. The following diagram indicates the basic steps involved in establishing control of another entity. It should be read in conjunction with paragraphs 1 to 11 of this appendix.

Establishing Control of another Entity for Financial Reporting Purposes



13. Sometimes a controlled entity is excluded from consolidation when its activities are dissimilar to those of other entities within the economic entity, Exclusion on these grounds is not justified because better information would be provided by consolidating such controlled entities and disclosing additional information in the consolidated financial statements about the different activities of controlled entities.

Appendix A

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) and the corresponding International Public Sector Accounting Standard (IPSAS) on 'Financial Reporting under Cash Basis of Accounting' Standard for Local Bodies. The purpose of this Appendix is only to bring out

Comparison with IPSAS on '*Financial Reporting under the Cash Basis of Accounting*'

1. Paragraphs 1.1.6 and 1.1.7 of IPSAS on *Financial Reporting under Cash Basis of Accounting* which provide information on definition of Government Business Enterprises (GBEs) and use of IFRSs by these enterprises have been deleted as these are not relevant for ASLB on *Financial Reporting under Cash Basis of Accounting*, which is applicable to Local Bodies. However, these paragraph numbers have been retained in the ASLB, in order to maintain consistency with IPSAS.

2. As per IPSAS on *Financial Reporting under Cash Basis of Accounting,* equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents. But the said requirement has been deleted from the ASLB on *Financial Reporting under Cash Basis of Accounting.*

3. Examples have been added in paragraph 1.2.7(a) to clarify the situation where cash is collected by a local body on behalf of government or another entity.

4. IPSAS on *Financial Reporting under Cash Basis of Accounting* requires that the statement of cash receipts and payments should present total cash payments of the entity showing separately a sub-classification of total cash payments using a classification basis appropriate to the entity's operations. IPSAS in its Part 2 encourages an entity to disclose, either on the face of the statement of cash receipts and payments or in other financial statements or in the notes to those statements, an analysis of total cash payments and payments by third parties using a classification recognised as a separate statement or by way of notes. IPSAS, however, enco based on either their nature or their function. IPSAS further provides that if an entity follows function-wise classification, it is

encouraged to disclose additional information on the basis of nature of payments. ALSB on Financial Reporting under Cash Basis of Accounting in its Part 1 requires that the statement of cash receipts and payments should present total cash payments of the entity showing separately a sub-classification of total cash payments using a classification based on either the nature of the payments or their function appropriate to the entity's operations. It further provides that whichever basis is adopted, the entity should disclose the total cash payments as per the other basis of classification either as a separate statement or by way of notes. To give effect to the above change, paragraphs 1.3.12, 1.3.25 and 2.1.23 have been amended, paragraphs 1.3.12A and 1.3.17A have been added and paragraphs 2.1.23(a), 2.1.24-2.1.29 have been deleted.

5. The IPSAS permits the periodicity, for example, of 52 weeks for preparation of financial statements. ASLB does not permit so, therefore, paragraph 1.4.3 has been deleted.

6. ASLB on *Financial Reporting under Cash Basis of Accounting* includes an exception to the principle of consistency of presentation and classification of items in the financial statements i.e. when there is a change in legislation. The IPSAS on *'Financial Reporting under Cash Basis of Accounting',* however, does not contain any such exception. Necessary amendments have been made in paragraph 1.4.13.

7. Paragraph 1.5 of the IPSAS requires an entity to restate its comparative information, in case an error arises in relation to a cash balance reported in the financial statements which relates to prior periods. ASLB does not require restatement of comparative information in such a case.

8. Examples of severe external long term restrictions where a controlled entity should be excluded from consolidation have been added in paragraph 1.6.6.

9. Paragraphs 1.6.8 and 1.6.14 of the IPSAS require that a controlling entity that is virtually wholly owned controlled entity need not present consolidated financial statements provided it obtains the approval of minority share holders. ASLB does not contain such provisions since these provisions are not relevant for local bodies in India.

10. The IPSAS requires that the difference between the reporting dates of controlling as well as the controlled entities should be no more than three

months whereas in paragraph 1.2.7(a), 5SLB requires that the difference between the reporting dates should be not more than six months.

11. Paragraph 1.7.4 of the IPSAS provides provisions related to translation of foreign controlled entities. Further, paragraph 1.7.5 deals with a situation where reporting currency is different from the currency of the country in which the entity is domiciled. This ASLB does not contain such provisions since these provisions are not relevant for local bodies in India.

12. Paragraphs 1.9.31, 1.9.32, 2.1.38 and 2.1.40 of the IPSAS which deal with Multiyear Budgets have not been included in ASLB keeping in view that these are not relevant for local bodies in India. However, paragraph numbers have been retained in order to maintain consistency with IPSAS.

13. Paragraphs 2.1.51-2.1.63 of the IPSAS provides encouraged disclosures in the context of hyperinflationary economies. These disclosures have not been included in this ASLB since the Indian economy is not hyperinflationary. However, paragraph numbers have been retained in the ASLB, in order to maintain consistency with the IPSAS.

14. Appendix 3 to the IPSAS provides a summary of key aspects of IPSAS 2, Cash *Flow Statements*, and guidance on its application for financial reporting under this Standard relating to '*Presentation of Statement of Cash Receipts and Payments*'. This Appendix has been deleted in this ASLB and it has been mentioned that ASLB 2 on 'Cash Flow Statements' may be referred for the format of the Statement of Cash Receipts and Payments and guidance. However, the Appendix number has been retained in the ASLB in order to maintain consistency with the IPSAS.

15. Paragraph 1.10.29 providing relief from the requirement to disclose comparative information for the previous period on initial application of *paragraphs 1.10.1 to 1.10.34 of this Standard* has been deleted since paragraph 1.4.16 of the Standard already provides relief in this regard for all the sections of the Standard. Necessary changes have been made in other paragraphs in this regard.

16. Paragraphs 1.8.1, 1.9.47-1.9.48, 1.10.28, related to 'Effective Date' have been removed as Part 1 of ASLB would become mandatory for Local Bodies in a state from the date specified by the State Government concerned. Paragraph numbers have been retained in order to maintain consistency with the relevant IPSAS.

17. Certain paragraphs such as paragraph numbers 1.3.20(b),(c) & (f), 1.9.5, 1.9.16, 1.9.29-1.9.30, 1.9.40, 2.1.18-2.1.20, 2.1.67(c) & (d) and paragraph 5, 8(b), 10(a), 11(e) of Appendix 5 have been removed from the ASLB, as these are not considered to be relevant for Local Bodies. However, paragraph numbers have been retained in order to maintain consistency with the IPSAS. To address the conditions prevailing in local bodies in India, various amendments in certain paragraphs and Appendices have been made.

Notes

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