BY: DR. SHAILESH KR. SINGH
(GUEST TEACHER)

Ref. No.: ……………. **B.Com. I** **Date:** 13 May, 2020

CORE CONCEPT OF

FINANCIAL ACCOUNTING

Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets

Objectives The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable the users to understand their nature, timing and amount.

Meaning A *provision* is a liability of uncertain timing or amount. A liability is a present obligation 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. An obligating *event* is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settle that obligation. 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. 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 will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. 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.

Ind AS 38: Intangible Assets

Objectives This Standard prescribes the standards 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 specific disclosures about these assets.

Meaning Intangible assets are such productive resources that are not in physical substance. These assets rarely generate economic benefits independently or individually but enhance the value of economic benefits likely to be generated from other assets. Intangible assets are either generated internally or acquired externally. Certain intangible assets come into existence on account of research and development, scientific and technical research leading to intellectual property, development of patents or acquisition of licence – production, export/import, fishing, and operation/production licences.

An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. To qualify as an intangible asset, the asset must have certain inherent features, also called qualities, to be eligible for recognition as an intangible asset. The prominent features are:

(i) Identifiability and separability of intangible assets
(ii) Control of intangible assets
(iii) Future economic benefits from intangible assets

Prominent intangible assets are patent, logo, copyrights, licences and goodwill.

An item to be recognised as intangible asset in the annual accounts must qualify for all these features.

Ind AS 39: Financial Instruments: Recognition and Measurement

Objectives The objective of this Standard is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Meaning *Financial instrument* is any contract that gives rise to financial asset for one part and a financial liability or equity instrument of another party to such contract which may be implicit or explicit. Therefore, financial instrument is:

- Contractual right or obligation,
- To be settled in cash or in exchange for some other asset or liability, and
- Does not generate economic benefits for future.

Contractual right or obligation is the first and foremost precondition for a financial instrument.

Financial Asset Financial assets include (i) cash, (ii) equity instruments of other entity, (iii) a contractual right to receive cash or any other financial asset or to exchange financial assets or liabilities, (iv) a derivative or non-derivative contract that will be settled in the entity's own equity instruments.

Financial Liability Financial liabilities include (i) a contractual obligation to deliver cash or any other financial assets to another party or to exchange with another party the financial assets or liabilities to settle the obligation, and (ii) a non-derivative or derivative contract that will be settled in the entity's own equity instruments.

Ind AS 40: Investment Property

Objectives The objective of this Standard is to prescribe the accounting treatment for investment property and related disclosure requirements.

Meaning *Carrying amount* is the amount at which an asset is recognised in the balance sheet. *Cost* is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Indian Accounting Standards. *Investment property* is property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Introduction

International Financial Reporting Standards (IFRS) like a single quality oriented and universally accepted set of accounting policies. Once implemented across the globe, it will facilitate easy understanding and interpretation of financial statements irrespective of the country to which the company belongs.

International Financial Reporting Interpretations Committee (IFRIC) assists IASB in bringing improvement in the financial reporting with the help of timely identification, discussion and resolution of financial reporting issues within the framework of IFRS. The main purpose of IFRIC is to publish IFRS which are applicable globally and it also insists upon gradual transition from GAAP (generally accepted accounting practices) to IFRS. IFRIC staff maintains a regular liaison with the committees of different countries who are responsible for the introduction of GAAP in the respective countries. The purpose is to give proper representation to each country and have universal applicability of IFRS.