Agenda

- AS – 10 Property Plant and Equipment (PPE)
- AS – 29 Provisions, Contingent Liabilities and Contingent Assets
- AS – 22 Accounting for Taxes on Income

AS-10 Property, plant and equipment

- Objective
- Scope
- Definition
- Recognition and Measurement
- Subsequent Cost and Subsequent Measurement
- Depreciation
- Componentization
- Disclosures

Objective and Scope

- **Objective of AS 10 is to prescribe the** accounting treatment for property, plant and equipment.
- AS 10 provides guidance on:
  - Recognition of the assets
  - Determination of the carrying amount
  - Accounting for depreciation
  - Recognition of decommissioning, restoration and similar liabilities

Scope

- Accounting for all property, plant and equipment unless another Standard requires or permits a different accounting treatment.
- Does not apply to:
  - Biological assets except bearer plants.
  - Mineral rights and mineral reserves – guidance notes deals with accounting of these assets.
  - Initial recognition of lease assets AS – 19.

Definitions

Tangible items

Held for:

- Use In the production or supply of goods or services
- Rental to others
- Administrative purposes

Expected to be used for more than a period of 12 months

Recognition and measurement

Property, plant and equipment shall be recognized as an asset when:

- Future economic benefits are probable
- Cost can be measured reliably

Criteria apply to all costs when incurred, including

- Initial acquisition or construction costs
- Subsequent costs

Property, plant and equipment is measured initially at cost

Replacement cost & Major inspections

Part Replacement

- Some items require regular replacement at different intervals and have different useful lives.
- Recognize the cost of replacing a part in the carrying amount, if recognition criteria are met.
- The carrying amount of replaced parts is derecognized.
- For example, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats may require replacement several times during the life of the airframe

Major inspection/Overhaul Costs

- Performing regular major inspections for faults, regardless of parts being replaced or not, may be a condition of continuing to operate an item of Property Plant and Equipment.
- Cost of each major inspection performed is recognized in carrying amount, as a replacement, if the recognition criteria are met.
- Any remaining carrying amount of the cost of the previous inspection is derecognized

Elements of cost

All costs involved in bringing the asset to the present location and condition

Cost Elements

Purchase costs

- Purchase price;
- Import duties/non refundable taxes;
- Deduct trade discounts/rebates.

Directly attributable costs

- Cost of Employee benefits
- Cost of site preparation
- Initial delivery and handling costs
- Transport handling charges
- Installation and assembly costs
- Cost of testing
- Professional fees

Other Costs

- Initial estimate of dismantling costs.
- Initial estimate of site restoration costs

Case study

ABC is installing a new plant at its production facility. It has incurred these costs:

- Cost of the plant (cost per supplier's invoice plus taxes) $2,500,000
- Initial delivery and handling costs $200,000
- Cost of site preparation $600,000
- Consultants used for advice on the acquisition of the plant $700,000
- Interest charges paid to supplier of plant for deferred credit $200,000
- Present value of estimated dismantling costs to be incurred after 7 years $300,000
- Operating losses before commercial production $400,000

Please advise ABC on the costs that can be capitalized

Case study - solution

Costs to be capitalised	Amount
Cost of the plant	$2,500,000
Initial delivery and handling costs	$200,000
Cost of site preparation	$600,000
Consultants' fees	$700,000
Present value of estimated dismantling costs to be incurred after 7 years	$300,000
Total costs	$4,300,000

Interest charges paid on “deferred credit terms” to the supplier of the plant of $200,000 cannot be capitalised since there is no qualifying asset. Also, operating losses before commercial production amounting to $400,000 are not directly attributable costs and hence, cannot be capitalised.

These costs should be written off to the statement of profit and loss as and when incurred.

Exchange of assets

If Property Plant and Equipment is acquired in exchange for other non monetary asset or for a combination of monetary and non monetary asset

Measure cost at fair value, unless:

- the exchange transaction has no commercial substance, or
- fair value of neither the asset received nor given up can be reliably measured

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Subsequent measurement

Cost Model

- Carried at
  - Cost less any accumulated depreciation and any accumulated impairment losses.
- Cost is depreciated over the useful life of the asset.

Revaluation Model

- Carried at
  - Revalued amount, that is, fair value at date of revaluation, less any accumulated depreciation and any accumulated impairment losses.
- The revalued amount is depreciated over the useful life

Revaluation model

Revaluation Model

Increase in carrying value of an asset

YES

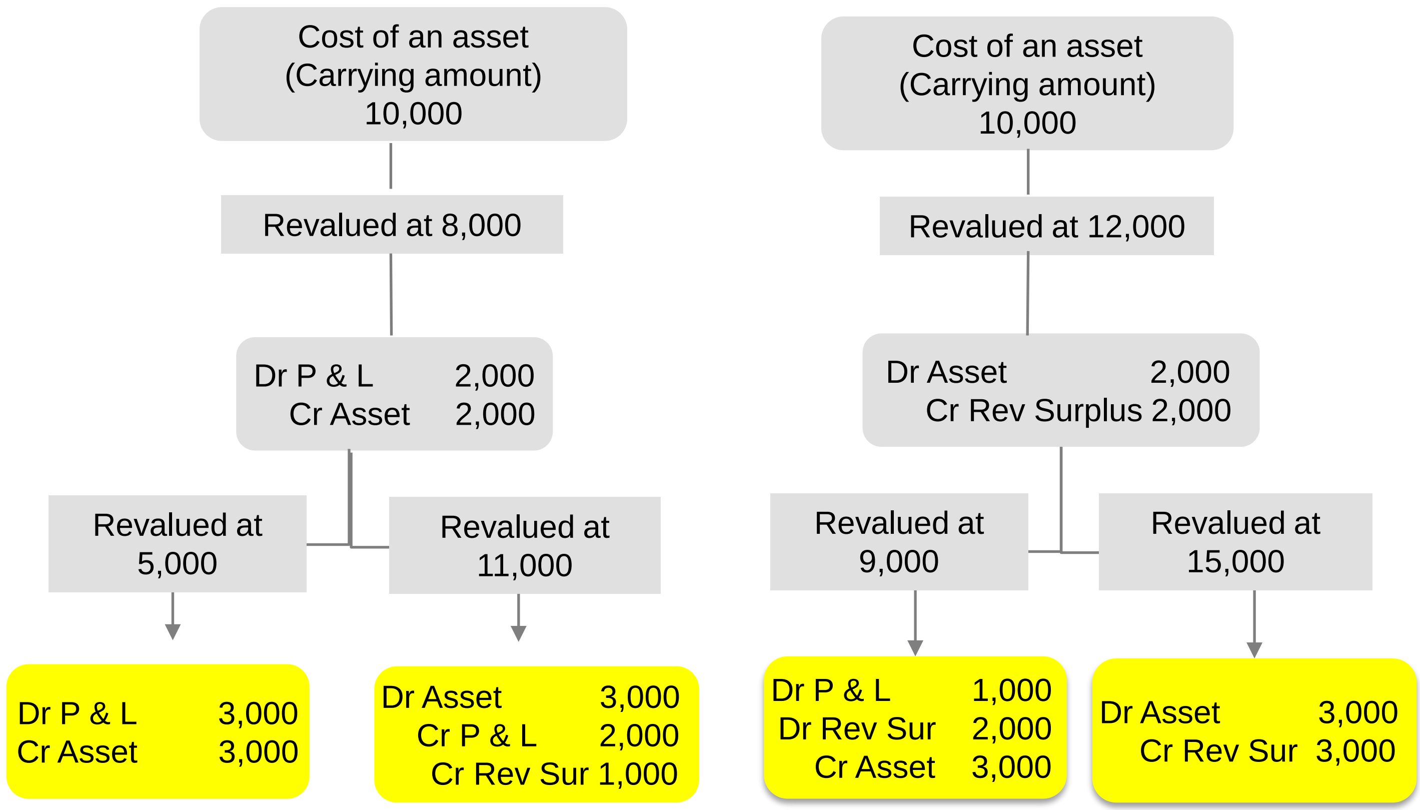
Recognized directly in Owners Equity as revaluation surplus. However, increase is recognised in P&L if it reverses a revaluation decrease of same asset previously recognised in P&L.

NO

Debit Revaluation Surplus to the extent recognized previously and balance, if any, charge to profit or loss

- Entire class of property, plant and equipment shall be revalued
- Revaluation shall be done with sufficient regularity

Revaluation model



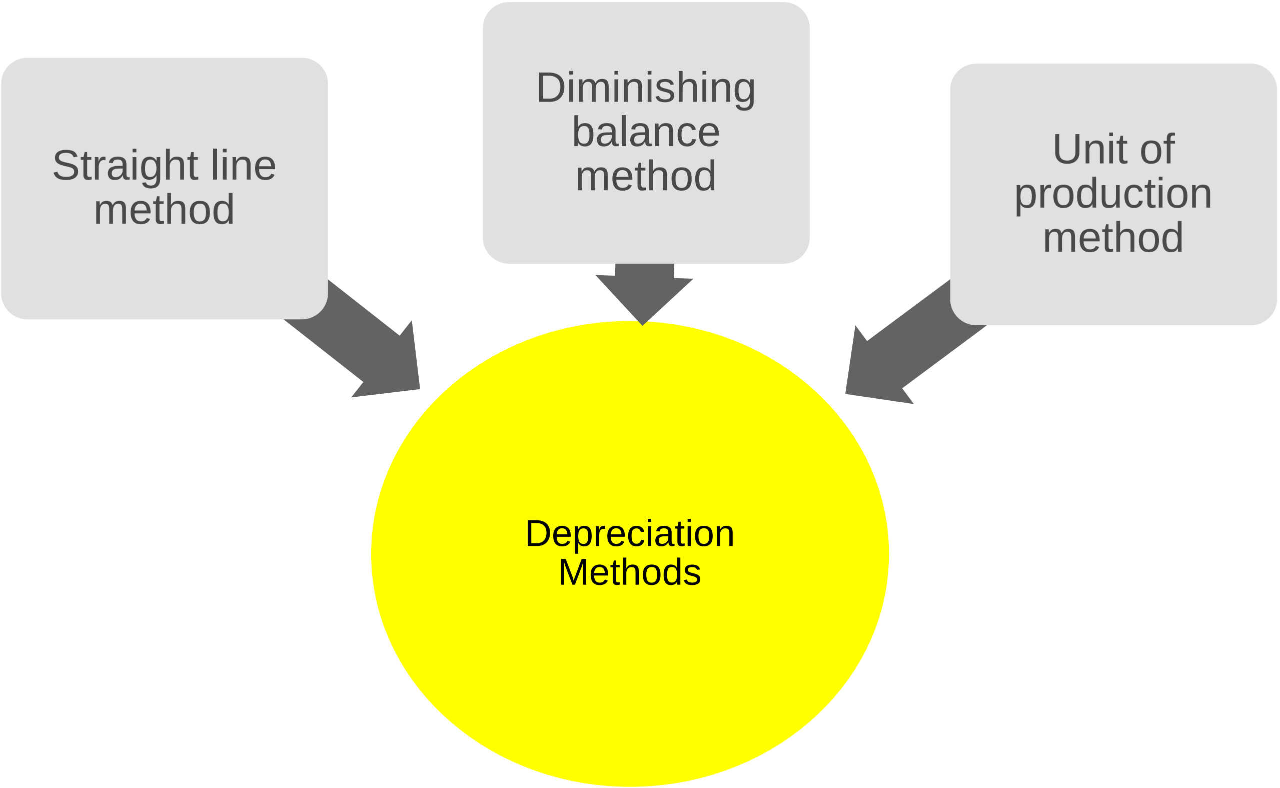
Assumption: No depreciation for the sake of simplicity

Depreciation

- All assets with a finite useful life must be depreciated and depreciation begins when the asset is available for use & continues until the asset is derecognized or classified as held for sale.
- 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.
- The residual value & the useful life of an asset shall be reviewed at least at each financial year end ,and if expectations are, the change shall be accounted for as a change in accounting estimates
- Depreciation shall be allocated on a systematic basis over its useful life.

Depreciable Amount = Cost –Residual Value

Depreciation method



Depreciation method

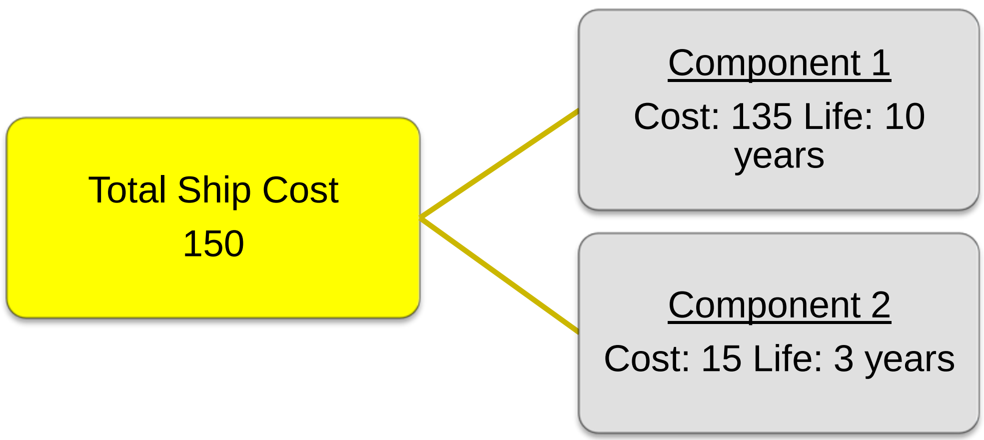
- The method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.
- The method shall be reviewed at least at each financial year-end.
- If significant change in expected pattern of consuming future economic benefits
  - Method shall be changed to reflect new pattern
  - Change shall be treated as change in an accounting estimate and accounted for prospectively.

Component accounting

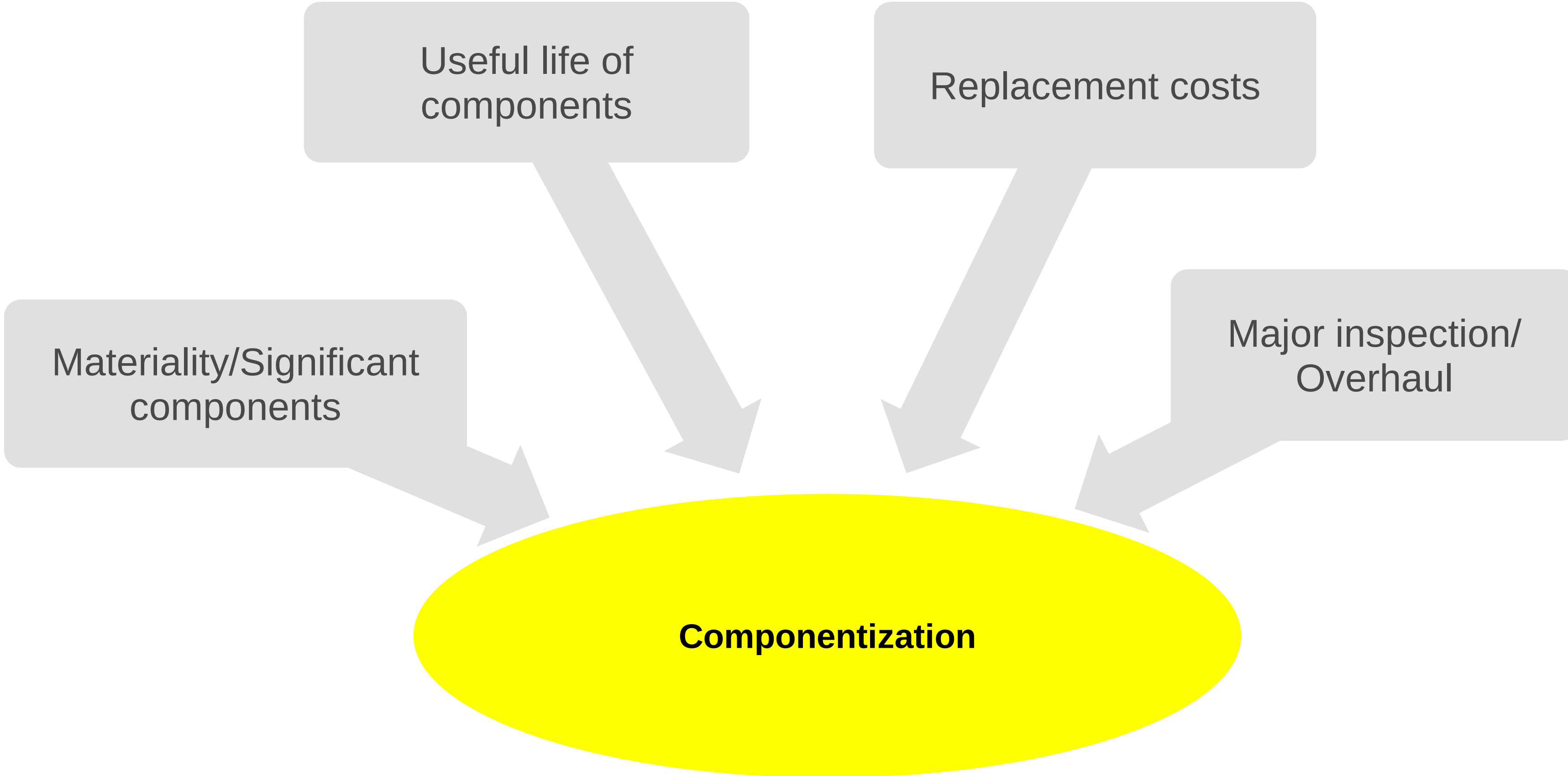
- Cost of each significant item of Property Plant and Equipment to be recognised and depreciated separately even though it may not have different useful life.
- Item of PPE means parts having a cost that is significant to total cost
- Identification of such parts required to recognise replacement cost, if required

Example:

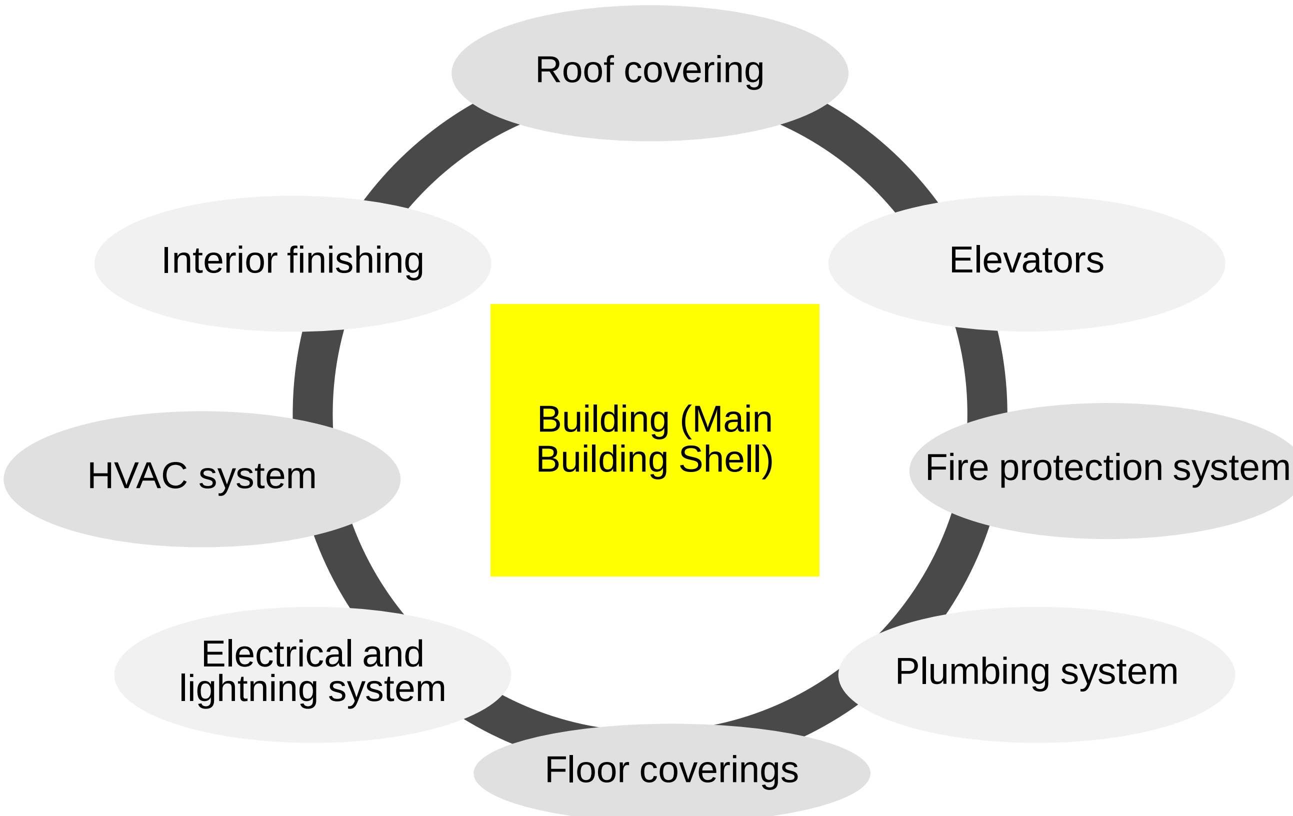
Ship costs: 150, useful life 10 years,
Estimated docking cost: 15, planned after 3 years



Componentization- key considerations



Example: components of a building



De-recognition of property, plant, and equipment

- Derecognise the carrying amount:
  - On disposal; or
  - When no future benefits are expected from its use
- Any gain or loss arising from the Derecognition i.e., difference between carrying amount and net proceeds from disposal to be included in profit or loss.
- Gains (or proceeds) are not classified as revenue

Disclosures

- Measurement basis
- Depreciation methods used
- Useful lives or depreciation rates used
- Gross carrying amount and accumulated depreciation at the beginning and end of the period
- Reconciliation of the carrying amount at the beginning and end of the period
- Existence and amounts of restrictions on title to assets
- Property Plant and Equipment pledged as security for liabilities
- Amount of expenditures recognised in the course of construction
- Contractual commitments for acquisition of Property Plant and Equipment
- Amount of compensation from third parties for items of Property Plant and Equipment

Disclosure for Revalued assets

- Effective date of revaluation
- Whether an independent valuer was involved
- Carrying amount of each class of revalued Property Plant and Equipment if the cost model had been applied
- Revaluation surplus, including movement and any restrictions on distribution of balance to shareholders

Key differences between old AS 10 and revised AS 10

Issue	Revised AS 10	Old AS 10 and AS 6
Spare parts	Items such as spare parts, stand-by equipment and servicing equipment are capitalized when they meet the definition of PPE, i.e., if the company intends to use these during more than a period of 12 months. Otherwise, such items are classified as inventory.	Machinery spares are usually treated as inventory and charged to profit or loss on consumption. However, spare parts that can only be used in connection with a particular item of fixed asset, and whose use is expected to be irregular, are capitalized. Such spare parts are depreciated over a period, not exceeding the remaining useful life of the principal asset.
Cost of item of PPE – financing element is to be separated	The cost of an item of PPE is its cash price equivalent at the recognition date. If the payment is deferred beyond normal credit terms, the difference between the cash price equivalent and total payment is charged as interest expense to the statement of profit and loss over the credit period, unless such interest is capitalized under AS 16 *Borrowing Costs*.	Except in case of assets acquired on hire purchase, entities are not required to separate finance element even if an asset is purchased on deferred payment basis. The general practice is not to discount future cash flows.

Key differences between old AS 10 and revised AS 10

Issue	Revised AS 10	Old AS 10 and AS 6
Estimation of useful life	Useful life of asset shall be reviewed at least at each financial year-end.	Useful lives of major depreciable assets or classes of depreciable assets may be reviewed periodically.
Unit of measure	Specifically recognizes “unit of measure” approach, for instance, for recognition of certain expenditure incurred on construction of assets not owned by an enterprise during the construction stage of a project. For example, a road constructed by an enterprise on government land which is not owned by the enterprise and over which it does not have exclusive control as the road can be used by general public, can be capitalized as a part of the project cost if such a road is constructed to facilitate the construction of the manufacturing plant itself because this cost is considered necessary for the project to be capable of operating in the manner intended.	No specific mention for unit of measure. Certain EAC opinions prohibit capitalization of enabling assets (refer discussion on enabling assets).

Key differences between old AS 10 and revised AS 10

Issue	Revised AS 10	Old AS 10 and AS 6
Estimates of residual value and Method of depreciation	Estimates of residual value and method of depreciation to be reviewed at least at each annual reporting date.	No periodic review for depreciation method or residual value
Cost of replacement, major inspection etc.	As 10 allows capitalisation of the replacement cost of an item of PPE, cost of major inspection and overhauls incurred. Carrying amount of items replaced or any remaining cost of previous inspection and overhauls is derecognised.	Cost of replacement of an item of fixed assets and the cost of major inspection are expensed when incurred (except the cost of replacement in a case of company which opted for componentisation, in which case it is capitalised)
Change in method of depreciation	Treated as change in change in estimates ► Prospective effect	Treated as change in accounting policy ► Retrospective effect
Component Accounting	PPE are componentised and depreciated separately.	Component accounting is not mandatory, however, it is recommended by the Standard. Pursuant to the Companies Act, 2013, company needs to do componentization.

Key differences between old AS 10 and revised AS 10

Issue	Revised AS 10	Old AS 10 and AS 6
Revaluation	Recognizes revaluation of fixed assets. However, the revaluation approach adopted therein is ad hoc in nature, since it does not require the adoption of fair value basis as its accounting policy or revaluation of assets with regularity. It also provides an option for selection of assets within a class for revaluation on systematic basis.	Requires a company to choose either the cost model or the revaluation model as its accounting policy and to apply that policy to an entire class of PPE. It requires that under the revaluation model, revaluation should be made with reference to the fair value of items of PPE. It also requires that revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from the amount determined using fair value at the balance sheet date.

AS – 29 Provisions, contingent liabilities and contingent assets

- Objective and Scope
- Definitions
- Recognition and Measurement
- Reimbursement
- Changes in Provisions
- Specific Guidance
- Disclosures
- Transitional Provisions

Objective

- AS 29 ensures that appropriate recognition criteria and measurement bases are applied to:

Provisions | Contingent liabilities and | Contingent assets

- Sufficient information is disclosed in the notes to enable users to understand their

Nature | Timing and | Amount

Scope

AS 29 applies to all provisions and contingencies except:

- AS 15 Employee Benefits
- AS 22 Income Taxes
- AS 19 Leases
- AS 7 Construction contracts
- Insurance Contracts.

Examples

Provision for depreciation and amortization	No	Covered by AS 10 and AS 26
Legal claims	Yes	
Provision for doubtful debts	No	
Income taxes	No	Covered by AS 22
Product warranties / refunds	Yes	
Amount payable for utilities	No	

Definition - Liabilities and Provisions

- A **Provision** is a liability which can only be measured by using substantial degree of estimation.

- A **Liability** is a
  - Present obligation arising from past events,
  - The settlement of which is expected to result
  - In an outflow of resources embodying economic benefits

- **Present legal** or constructive obligation as a result of a **past event**

Probable **outflow of economic benefits** to settle the obligation

Obligation can be **estimated reliably**

Obligating event

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.

Legal

- Contract
- Legislation
- Other Operation of Law

Constructive

- Established pattern of past practice*
- Published policies*
- Commitment*

** by which the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities*

Case Study – Example on legal obligation

Operator VF is a mobile operator that leases a cell site and builds a base station on the site. It is required to reinstate the land at the end of the lease. The lease term is 50 years. VF expects to relocate the base station at the end of the lease term.

Solution

VF should measure the likely asset retirement obligation and add its present value to the assets as lease hold improvements. This present value of the obligation is unwound over the period through interest cost.

Case Study - Example on constructive obligation

Environmental policy – contaminated land

- An entity in the oil industry operates in a country with no environmental legislation. However, it has a widely published environmental policy in which it undertakes to clean up all contamination that it causes and it has a record of honouring this published policy. During the period the entity causes contamination to some land in this country.

- In these circumstances, the contamination of the land gives rise to a constructive obligation because the entity (through its published policy and record of honouring it) has created a valid expectation on the part of those affected by it that the entity will clean up the site.

Case Study

ABC is an automobile component manufacturer. The automobile manufacturer has specified a delivery schedule, non adherence to which will entail a penalty. As on March 31, 2X16, the reporting date, the manufacturer has a delivery scheduled for June 2X17. However the manufacturer is aware that he will not be able to meet the delivery schedule in June 2X17. Determine whether the entity has a present obligation as at March 31, 2X16, requiring recognition of provision.

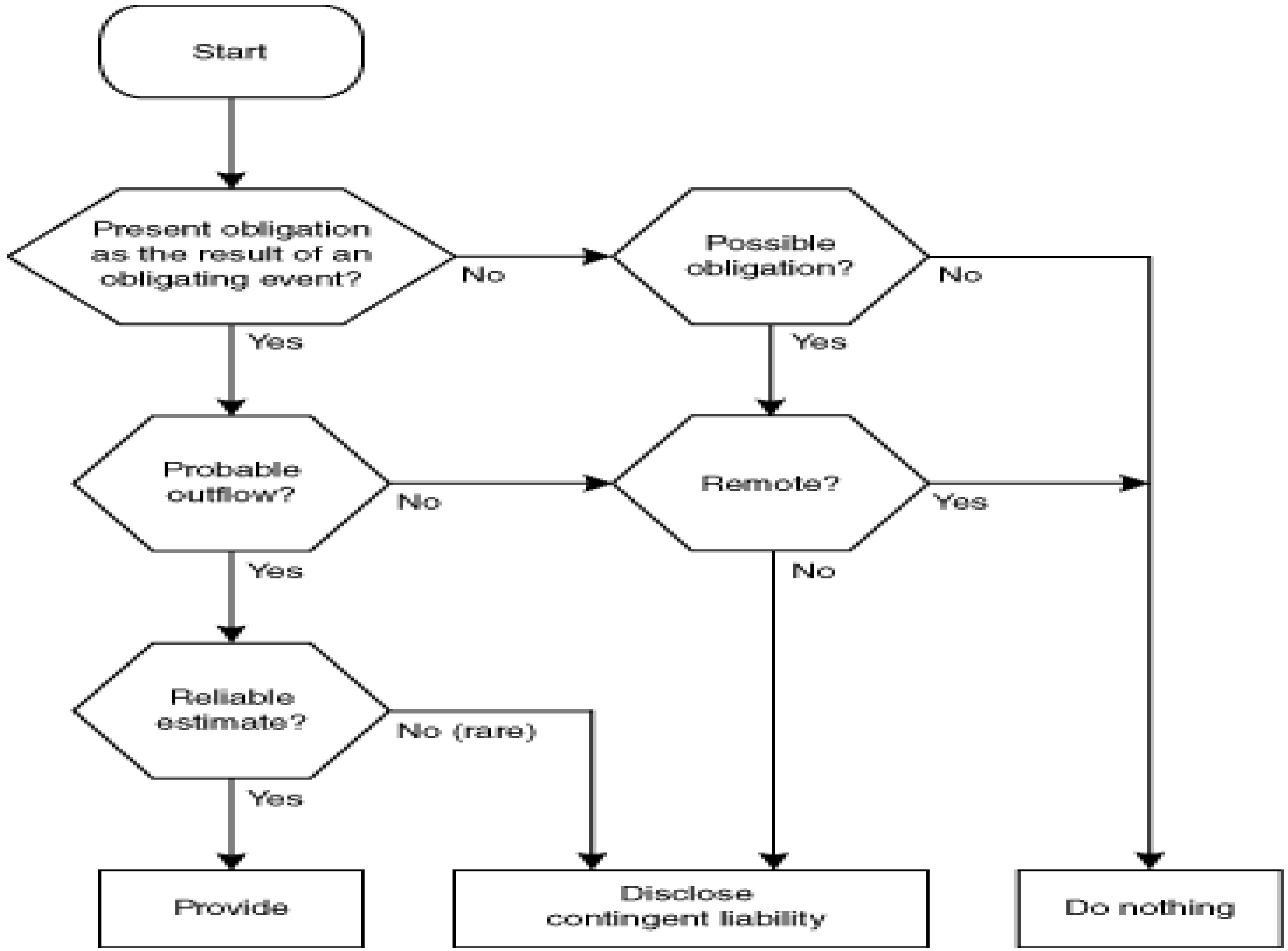
Solution

In this case, there is no present obligation arising out of a past event as the goods are scheduled for delivery in June 2X17 and there is no delay as at March 31, 2X16. Hence, there is no present obligation to pay the penalty in the current year. Therefore, no provision can be recognised in the instant case.

Contingent liability & continent asset

Contingent Liability	▸ Possible obligations arising from a past event to be confirmed by future events not wholly within the control of the entity, or ▸ Present obligations arising from a past event ▸ Of which the outflow of economic benefits is not probable, or ▸ That cannot be measured reliably
Contingent assets	▸ Possible assets arising from a past event to be confirmed by future events not wholly within control of entity

Recognition and measurement



Recognition requirements

Summary in tabular form:

Likelihood of outcome	**Contingent liability**	**Contingent asset**
Virtually certain (greater than 95% probability)	Recognise the provision	Recognise the asset
Probable – more likely than not (50% - 95% of probability)	Recognise the provision	Disclose about the contingent asset
Possible but not probable (5% - 50% of probability)	Disclose the contingency	No disclosure permitted
Remote (less than 5% probability)	No disclosure required	No disclosure permitted

Case Study - Example on contingent asset

An entity has filed a legal case on its supplier for liquidated damages of Rs. 3 million. The supplier has disagreed with the claim and is unwilling to make settlements outside court. In this case an inflow of economic benefits is not probable.

Subsequently, the court ruled a judgment in favour of the entity. However, the supplier has filed an appeal against the court order. Management of the entity is of the opinion that again the court order will be in its favour. In this case, it will be appropriate to disclose this amount as contingent asset as the inflow of economic benefits is probable.

Recognition of asset in the books will be appropriate when the final decision in the favour of entity is received and there is virtual certainty of inflow of economic benefits.

Measurement

General Rules:

- Best Estimate
- Present Value
- Future Events
- Expected disposal of assets

Measurement - Best estimate rule

- The amount provided should be the best estimate at the end of the reporting period of the expenditure required to settle the obligation.
- As per AS 29, ‘Best Estimate’ refers to the amount that an entity would <u>rationally pay</u> to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.
- The estimates of outcome and financial effect are <u>determined by the judgement of the management</u> of the entity.
- Expected value method is used to measure provision where large population of items are involved. The obligation is estimated by weighting all possible outcomes by their associated probabilities

Case study

- Company A sells a product with one year warranty. Number of product sold during 2017 were 500,000.
- Costs to repair one item:
  - minor defects – $ 20
  - major defects – $ 60
- Past statistics:
  - No defects for 75% goods
  - Minor defects for 20% goods
  - Major defects for 5% goods

What provision should be made for warranty costs?

Solution:

Expected value of the liability in respect of items sold in 2017:

	Calculation	Result
No defects	500,000 x 75% x 0	0
Minor defects	500,000 x 20% x 20	2,000,000
Major defects	500,000 x 5% x 60	1,500,000
Total		**3,500,000**

Measurement - Present value rule

- The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date.
- The amount of a provision should not be discounted to its present value except in case of decommissioning, restoration and similar liabilities that are recognised as cost of Property, Plant and Equipment.
- The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Measurement - Other rule

Future events:

- Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

Example: The effect of a possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted.

Expected disposal of assets:

- Gains from the expected disposal of assets shall not be taken into account in measuring a provision.

Example – Future events

Example:

- X Chemicals Ltd. engaged in the chemical industry causes environmental damage by dumping waste in the river near its factory. It does not clean up because there is no environmental legislation requiring cleaning up and X Chemicals Ltd. is causing damage for last 40 years.
- As at March 31, 20X8, the State Legislature has passed a legislation requiring all polluting factories to clean-up the river water already contaminated. The formal Gazette notification of the law is pending.
- How should X Chemicals Ltd. deal with this situation?

Solution:

- The obligating event is the contamination of water and because of the virtually certainty of legislation requiring cleaning up, an outflow of resources is certain. It is possible to arrive at best estimated cost for the clean-up activity.
- So, a provision should be recognised in the books of X Chemicals Ltd. for 20X7-20X8.

Reimbursements

- In case of expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when and only when it is virtually certain that reimbursement will be received if the entity settles the obligation.

The reimbursement shall be treated as a separate asset	The amount recognised for the reimbursement shall not exceed the amount of the provision

- In the statement of profit and loss, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

Changes in provisions

- Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

- If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

Onerous contracts

Is the contract 'Onerous' in the first place?

Unavoidable costs > Economic benefit

- The present obligation under the contract shall be recognised and measured as a provision.
- Measurement at the lower of :
  - Cost of terminating the contract; or
  - Net cost of continuing with the contract
- If a contract can be terminated without paying penalty, then it is NOT onerous

Example of Onerous Contract:

A Company, that operates profitably from its current leased building relocates its operations to a building but pays rent during the remaining four-year lease term on the old building has an onerous contract. In this case Company. is obligated to make payments, but is no longer using the asset.

Disclosures

- Movement in balances as below:

  Opening balances
  + additional provisions recognised
  - amounts used
  - unused amounts reversed
  + increase in the discounted amount due to the passage of time and / or changes in the discount rate
  = Closing balances

- No comparative reconciliation is required

Disclosures

- By Category:
  - Brief description, timing, uncertainties of provisions
  - Expected and recognised reimbursements relating to provisions
  - Brief description and financial effect of any contingent assets and liabilities
  - If it is impracticable to disclose any of the information, the fact shall be stated

Key differences between old AS 29 and revised AS 29

Issue	Old AS 29	Revised AS 29
Discounting	The amount recognized as provision should be best estimate of expenditure required to settle the present obligation at balance sheet date. The amount of provision should not be discounted to its present value.	The amount recognized as provision should be best estimate of expenditure required to settle the present obligation at balance sheet date. The amount of provision should not be discounted to its present value, except in case of decommissioning, restoration and similar liabilities that are recognized as cost of PPE in accordance with AS 10.

Transitional Provisions

- The transitional provisions state that all the existing provisions for decommissioning, restoration and similar liabilities should be discounted prospectively, with the corresponding effect to the related items of PPE.

- Since AS 29 previously prohibited discounting, some companies may have capitalized undiscounted amount of decommissioning, restoration and similar liabilities to the cost PPE. Considering this, transitional provisions require that all the existing provisions for decommissioning, restoration and similar liabilities should be discounted prospectively, with the corresponding effect to the related items of PPE.

Example :

- Consider that 5 years ago, the company has capitalized PPE along-with related decommission obligation of INR100 million at an undiscounted amount. The obligation is payable after 25 years from the date of initial incurrence, i.e., 20 years from the date of adoption of revised AS 29. It is assumed that there are no changes in the decommissioning obligation. On the date of adoption of revised AS 29, the company will discount INR100 million for the remaining period of 20 years. Assume that this results in present value of decommissioning obligation at INR55 million. The company will reduce the corresponding INR45 million (100-55) from the cost of PPE. Going forward, interest will be recognized on decommissioning obligation of INR55 million, such that after 20 years, the amount is accreted to INR100 million. Effectively, transitional provisions require entities to ignore impact of past discounting on finance cost. Similarly, the enterprise should ignore depreciation impact that may have arisen in earlier years due to reduced capitalization amount.

AS – 22 Accounting for taxes on income

- Objective and Scope
- Definitions
- Recognition and Measurement
- Review and Reassessment of Deferred Tax Assets
- Measurement
- Disclosures

Objective and rationale

- AS 22 prescribes accounting for taxes on income.

Current Tax	Deferred Tax

- Sufficient information is disclosed in the notes to enable users to understand their

Nature	Timing and	Amount

- In accordance with the ***matching concept and accrual concept***, taxes on income are accrued in the same period as the revenue and expenses to which they relate.

Definitions

- ***Accounting income (loss)*** is the net profit or loss for a period, ***as reported in the statement of profit and loss***, before deducting income tax expense or adding income tax saving.
- ***Taxable income (tax loss)*** is the amount of the income (loss) for a period, ***determined in accordance with the tax laws***, based upon which income tax payable (recoverable) is determined.
- ***Tax expense (tax saving)*** is the aggregate of current tax and deferred tax charged or credited to the statement of profit and loss for the period.
- ***Current Tax -*** amount of income tax determined to be payable (recoverable) in respect of the taxable income (tax loss) for a period.
- ***Deferred tax -*** is the tax effect of timing differences.
- ***Timing differences*** - are the differences between taxable income and accounting income for a period that originate in one period and ***are capable of reversal*** in one or more subsequent periods.
- ***Permanent differences*** - are the differences between taxable income and accounting income for a period that originate in one period and ***do not reverse subsequently***.

Difference between Accounting and Taxable Income

Accounting income and taxable income might be different due to following 2 reasons –

- ***Difference between items*** of Revenue and expense as per statement of profit & loss and those considered for tax purpose;
- ***Difference between the amount*** of the items of Revenue and expenses as per statement of profit and loss and those considered for tax purpose.

Classification of differences :

Permanent Differences –	Timing Differences –
- Disallowance under section 37 - Dividend income - Disallowance under section 40A(3)	- Expenditures under section 43B - Different depreciation rates - Different method of depreciation - Unabsorbed depreciation and carry forward of losses

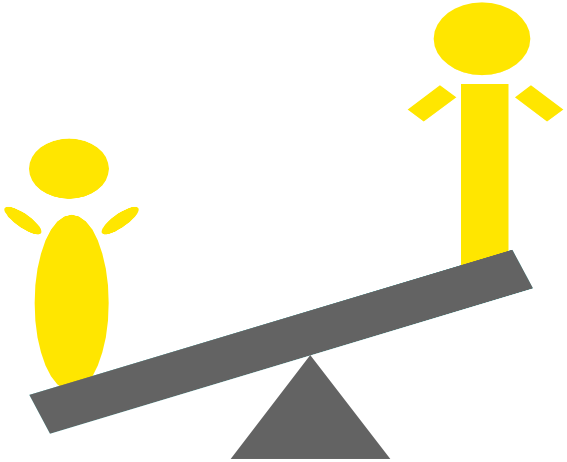
Recognition

- Tax expense should be included in the determination of net profit or loss for the period.
- Tax effects of timing difference are included in tax expenses and as deferred tax assets or as deferred tax liability.
- Permanent differences do not result in deferred tax assets or deferred tax liabilities.

Recognition of deferred tax assets / liability

Liability
Recognize in full

Asset
Recognize if recoverable



General recognition criteria

- DTA should be recognized to the extent there is ***reasonable certainty*** that taxable profit will be available against which the timing difference will be reversed.
- In case of unabsorbed depreciation or carry forward of losses under tax laws, recognition if there is ***'virtual certainty with convincing evidences'***, that sufficient future taxable income will be available against which deferred tax asset can be realized.
- Virtual certainly supported by convincing evidences is to be separately checked for recognition of deferred tax assets on losses under the head ***capital gains***.
- Review of carrying amount of a DTA at each balance sheet date.
- Reassessment of unrecognized DTA at each balance sheet date.
- Discounting prohibited.

General recognition criteria

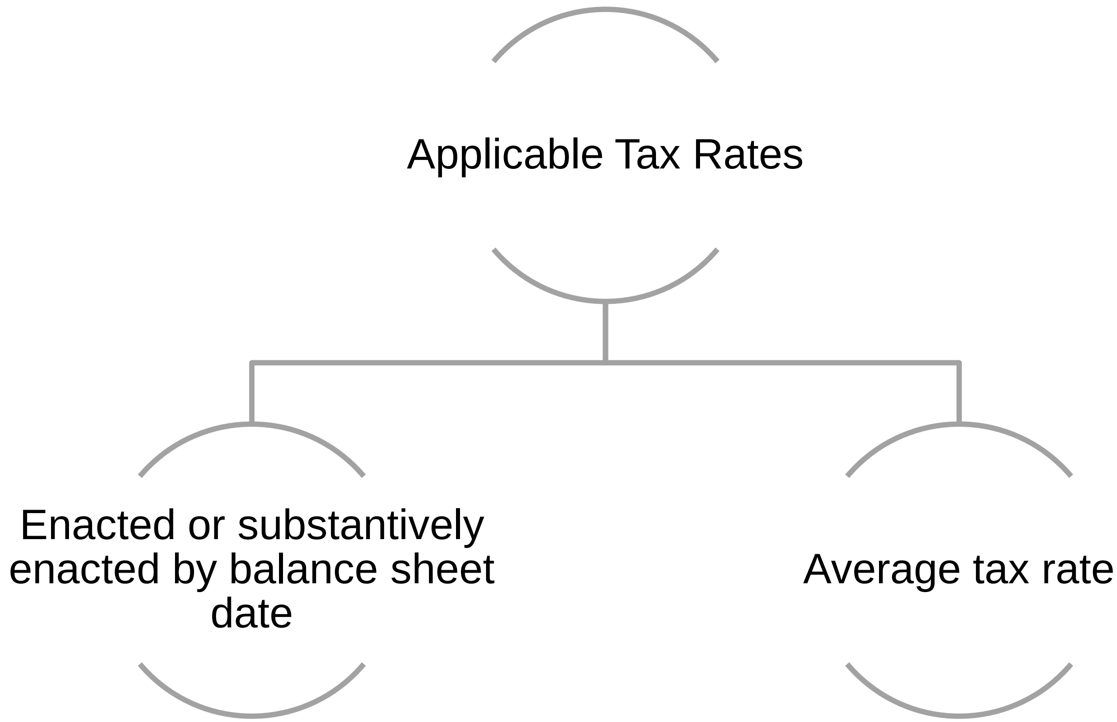
- This ***reasonable level of certainty*** would normally be achieved by examining the ***past record*** of the enterprise and by making ***realistic estimates*** of profits for the future.

- Determination of ***virtual certainty*** that sufficient future taxable income will be available is a matter of judgement based on convincing evidence and will have to be evaluated on a case to case basis.

- Virtual certainty refers to the extent of certainty, which for all practical purposes, can be considered certain. Virtual certainty cannot be based merely on forecasts of performance such as business plans.

- To be convincing, the evidence should be available at the reporting date in a concrete form, for example, a ***profitable binding export order***, cancellation of which will result in payment of heavy damages by the defaulting party.

Measurement of deferred tax – Tax rates



Disclosures

An enterprise should offset assets and liabilities representing current tax if the enterprise:

- has a legally enforceable right to set off the recognized amounts; and
- intends to settle the asset and the liability on a net basis.

An enterprise should offset deferred tax assets and deferred tax liabilities if:

- the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and
- the deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.

Disclosures

- Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities.
- The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.
- The nature of the evidence supporting the recognition of deferred tax assets should be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws.

Thank you!

CA Naresh Oala
Mobile : +91-9873035269
Email : naresh.oala@gmail.com