



Accounting Standard (AS) 24

Discontinuing Operations



Objective and Scope



- To establish principles for reporting information about discontinuing operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise's cash flows, earnings-generation capacity, and financial position by segregating information about discontinuing operations from information about continuing operations
- Applies to all discontinuing operations of an enterprise



Definitions



- Discontinuing operation is a component
 - That the enterprise, pursuant to a single plan is;
 - Disposing of or Terminating through abandonment
 - That represents a separate major line of business or geographical area of operations; and
 - That can be distinguished operationally and for financial reporting purposes



Case Studies



- Discontinuing operation is a component of an enterprise. What does “component of an enterprise” mean?
- Whether a discontinuing operation has to be a business or geographical segment as defined in AS 17, “Segment Reporting”?



Presentation



- Disclosures required by AS 24 to be presented separately for each discontinuing operation
- Only the following needs to be presented on face of the Statement of Profit and Loss
 - The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial period and the income tax expense related thereto; and
 - The amount of pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operation



Case Studies



- ABCD Ltd. presents its Statement of Profit and Loss in the following manner:

Loss for the period	(XXX)
Less: Loss from Discontinuing Operation	(XXX)
Profit from Continuing Operation	XXX

Whether the presentation is in accordance with AS 24?



Case Studies



- ABCD Ltd. is SMC. It decides to discontinue its metals business in the current financial year ending on 31 March 2013. Whether it is required to present discontinuing operation separately as per AS 24? If yes, whether the previous year figures also need to be segregated into continuing and discontinuing operations?
- ABCD Ltd. has presented discontinuing operation as an extraordinary item. Comment.



Component of Enterprise



- Can be distinguished operationally and for financial reporting purposes
 - Operating assets and liabilities can be directly attributed to it;
 - Its revenue can be directly attributed to it; and
 - At least a majority of expenses can be directly attributed to it.
- When can Assets, Liabilities, Revenues and Expenses be said to be directly attributable to a component?



Initial Disclosure Event



- Earlier of
 - Binding sale agreement for substantially all of the assets attributable to the discontinuing operation;
or
 - Approval of a detailed formal plan for the discontinuance by the board and announcement of the plan to those affected by it



Detailed formal Plan



- Should identify major assets to be disposed of
- State the expected method of disposal
- Expected period for completion of the disposal
- Principal locations affected
- Location, function and approximate number of employees who will be compensated for terminating their services; and
- The estimated proceeds or salvage to be realised by disposal



Initial Disclosures



- Description of discontinuing operation
- Related Segment
- Date and nature of initial disclosure event
- Period by which the discontinuance is expected to be completed
- Carrying amounts of the total assets to be disposed off and the total liabilities to be settled
- Amount of revenue and expense in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period
- Amount of pre-tax profit or loss from ordinary activities attributable to discontinuing operation during the current financial reporting period, and the income tax expense related thereto
- Amount of net cash flows attributable to the operating, investing and financing activities of the discontinuing operation during the current financial reporting period



Case Studies



- ABCD Ltd. announced a detailed plan to discontinue its retail business on 15 April 2013. Its financial year ends on 31 March 2013. The financial statements were under preparation when the announcement was made. It seeks your opinion on whether the requirement of AS 24 as regards initial disclosure will have to be complied with in the financial statements for the year ended 31 March 2013.



Other Disclosures



- On disposal of assets or settlement of liabilities or on entering into binding sale agreement
 - Pre-tax gain or loss and income-tax expense relating to the gain or loss
 - NSP or Range of NSPs as per binding sale agreements, expected timing of receipt of cash flows and the carrying amount of those net assets on the balance sheet date



Updating Disclosures



- Disclose any significant changes in the amount or timing of cash flows and the events causing those changes
- On abandonment or withdrawal of plan, disclose
 - The fact;
 - Reasons therefor; and
 - Effect of such abandonment or withdrawal



Disclosure in IFR



- Any significant activities or events since the end of the most recent annual reporting period relating to a discontinuing operation; and
- Any significant changes in the amount or timing of cash flows relating to the assets to be disposed or liabilities to be settled



QUESTIONS





Accounting Standard (AS) 20

Earnings per Share



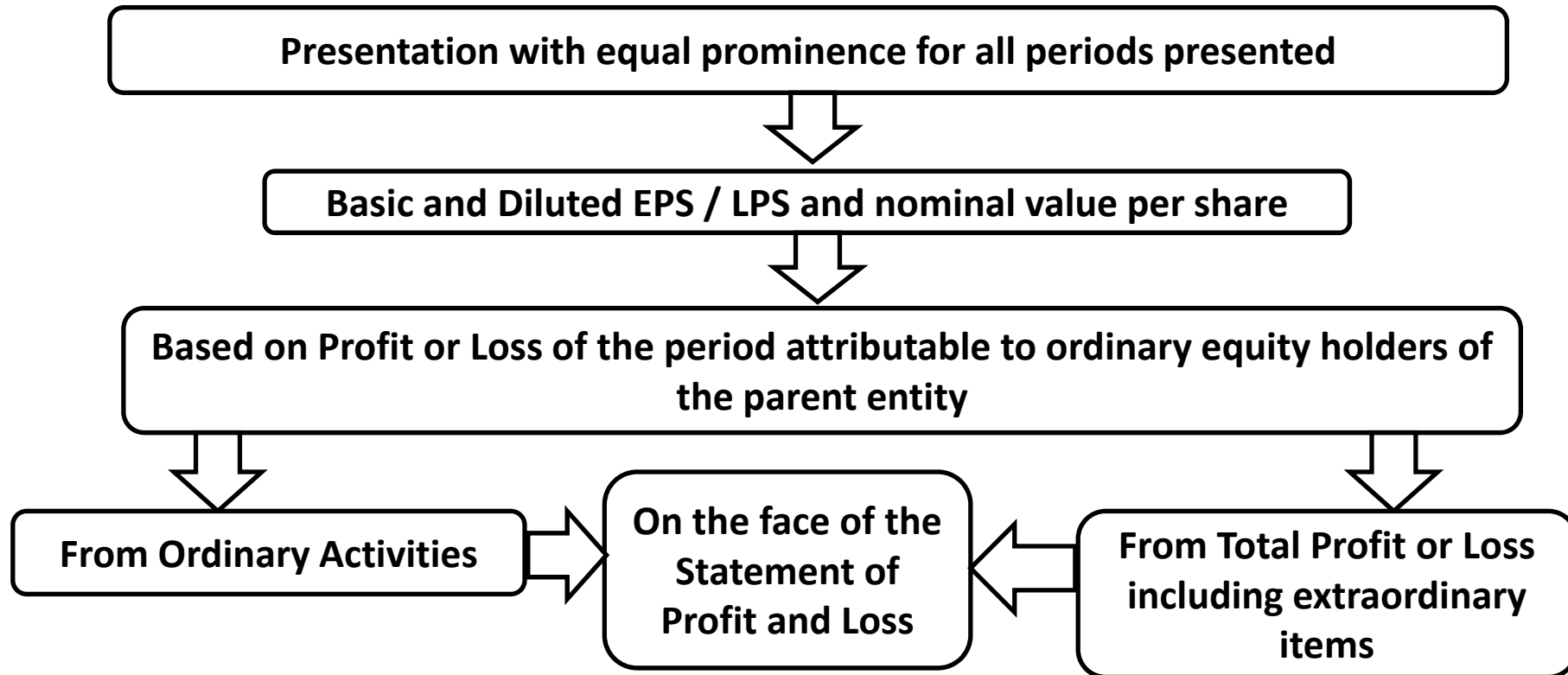
Objective and Scope



- To prescribe principles for the determination and presentation of earnings per share thereby enhancing comparability of financial statements qua periods and qua entities
- Focus on Denominator
- Applies to all companies except that SMCs need not disclose Diluted EPS



Presentation





Case Studies



- ABCD Ltd. has 12% cumulative preference shares outstanding. The company provides for preference dividend in annual accounts. Whether the unrecognised preference dividend will have any effect in the calculation of quarterly EPS?



Case Studies



- Calculate Basic EPS

Profit attributable to ordinary equity holders of the parent entity for 2009	Rs.18,00,000
Profit attributable to ordinary equity holders of the parent entity for 2010	Rs.60,00,000
Ordinary shares outstanding until 30/09/2010	20,00,000
Bonus issue on 01/10/2010	2 for one



Calculation of Basic EPS in case of Bonus Issue:

	2009	2010	Comparative of 2009
Profit Attributable to Equity Holders	18,00,000.00	60,00,000.00	18,00,000.00
No. of Equity Shares before bonus	20,00,000.00	20,00,000.00	20,00,000.00
Bonus Issue		40,00,000.00	40,00,000.00
No. of Equity Share after Bonus		60,00,000.00	60,00,000.00
Basic EPS	0.9	1	0.3



Case Studies



- Calculate Basic EPS for 2009, 2010 and 2011

	2009	2010	2011
Profit attributable to ordinary equity holders of the parent entity	Rs.1100000	Rs.1500000	Rs.1800000
Shares outstanding before rights issue	50000 shares		
Rights issue, Last date to exercise rights: 01/03/2010	One for five, Exercise price:Rs.5.00, Date of rights issue: 01/01/2010		
Market price of one ordinary share immediately before exercise on 01/03/2010	Rs.11.00		
Reporting Date	31/12		



Calculation of Basic EPS in case of Rights Issue:

	2009	2010	Comparative of 2009	2011	Comparative of 2010
No. of Shares outstanding before Rights	50,000.00	50,000.00	50,000.00	50,000.00	50,000.00
Rights Issue		10,000.00		10,000.00	10,000.00
No. of Share outstanding after Rights		60,000.00		60,000.00	60,000.00
Fair Value per Share immediately before exercise		11.00			11.00
Exercise Price		5.00			5.00
Theoretical Ex-Rights value per Share		10.00			10.00
Bonus Element in Rights Issue		1.10			1.10
Bonus Shares issued		5,000.00	5,000.00	5,000.00	5,000.00
No. of Shares after Bonus Issue		55,000.00	55,000.00	55,000.00	55,000.00
Shares issued at fair value		5,000.00			5,000.00
Weighted Average No. of Shares issued at Fair Value		4,166.67			4,166.67
Profit attributable to Equity Holders	11,00,000.00	15,00,000.00	11,00,000.00	18,00,000.00	15,00,000.00
Basic EPS	22.00	25.35	20.00	30.00	25.35



Case Studies



- A Ltd. has loss from continuing operations attributable to the parent entity of Rs.48 lacs, profit from discontinuing operations attributable to the parent entity of Rs.72 lacs and 2000 ordinary shares and 400 potential ordinary shares are outstanding. The potential ordinary shares has no dilutive effects on earnings. Calculate Basic and Diluted EPS.



Case Studies

- Calculate Diluted EPS



Profit attributable to ordinary equity holders of the parent entity for the year 2010	Rs.12 lacs
Weighted average number of ordinary shares outstanding during the year 2010	5 lacs
Avg. Mkt. px. of one ordinary share during the year 2010	Rs.20
Weighted avg. no. of shares under option during the year 2010	1 lac
Exercise price for share under option during the year 2010	Rs.15



Calculation of Basic and Diluted EPS in case of Options

Profit attributable to Equity Holders	12,00,000.00
Weighted No of Equity Shares Outstanding	5,00,000.00
Weighted No. of Shares under Options	1,00,000.00
Avg. Market Price of equity shares	20.00
Exercise price per Equity Share under Option	15.00
% of Shares issued for consideration at fair value	75.00
% of shares issued for no consideration	25.00
No. of Shares issued for no consideration	25,000.00
Weighted Avg. No. of Shares After Dilutive Effects	5,25,000.00
Basic EPS	2.40
Diluted EPS	2.29



Case Studies

- Calculate Diluted EPS



Profit attributable to ordinary equity holders of the parent entity	Rs1000000
Ordinary shares outstanding	1000
Convertible bonds	100000
Each block of 10 bonds is convertible into three ordinary shares	
Interest expense for the current year relating to the liability component of the convertible bonds	Rs.100000
Tax expense related to that interest expense	Rs.10000



Calculation of Basic and Diluted EPS in case of Convertible Bonds:	
Profit attributable to Equity Holders	10,00,000.00
Weighted No of Equity Shares Outstanding	1,000.00
No. of Convertible Bonds	1,00,000.00
No. of Shares issued on conversion of Bonds	30,000.00
Weighted Avg. No. of Equity Shares Outstanding after Conversion	31,000.00
Interest on Convertible Bonds	1,00,000.00
Tax Saving related to Interest Expense	10,000.00
Additional profit on conversion	90,000.00
Profit attributable to Equity Holder after Conversion	10,90,000.00
Basic EPS	1,000.00
Diluted EPS	35.16



Case Studies



- ABCD Ltd. discloses EBITDA per share. However, it has neither disclosed EBITDA as a line item in the Statement of Profit and Loss nor the WANOS has been used as denominator. Comment.



Disclosures



- Amount used as numerators in calculating basic and diluted EPS and a reconciliation with net profit or loss for the period
- WANOS used as denominator in calculating basic and diluted EPS and reconciliation of these denominators to each other



QUESTIONS





Accounting Standard (AS) 2

Valuation of Inventories



Objective

Objective

- To determine cost of inventories, any write-down thereof to NRV and the value at which inventories are carried in the financial statements until the related revenues are recognised



Scope



- Applies to all inventories except
 - WIP arising under construction contracts, including directly related service contracts
 - Shares, debentures and other Financial Instruments held as Stock-in-Trade
 - Producers inventories of livestock, agricultural and forest products, and mineral oils, ores and gases
 - To the extent that they are measured at NRV



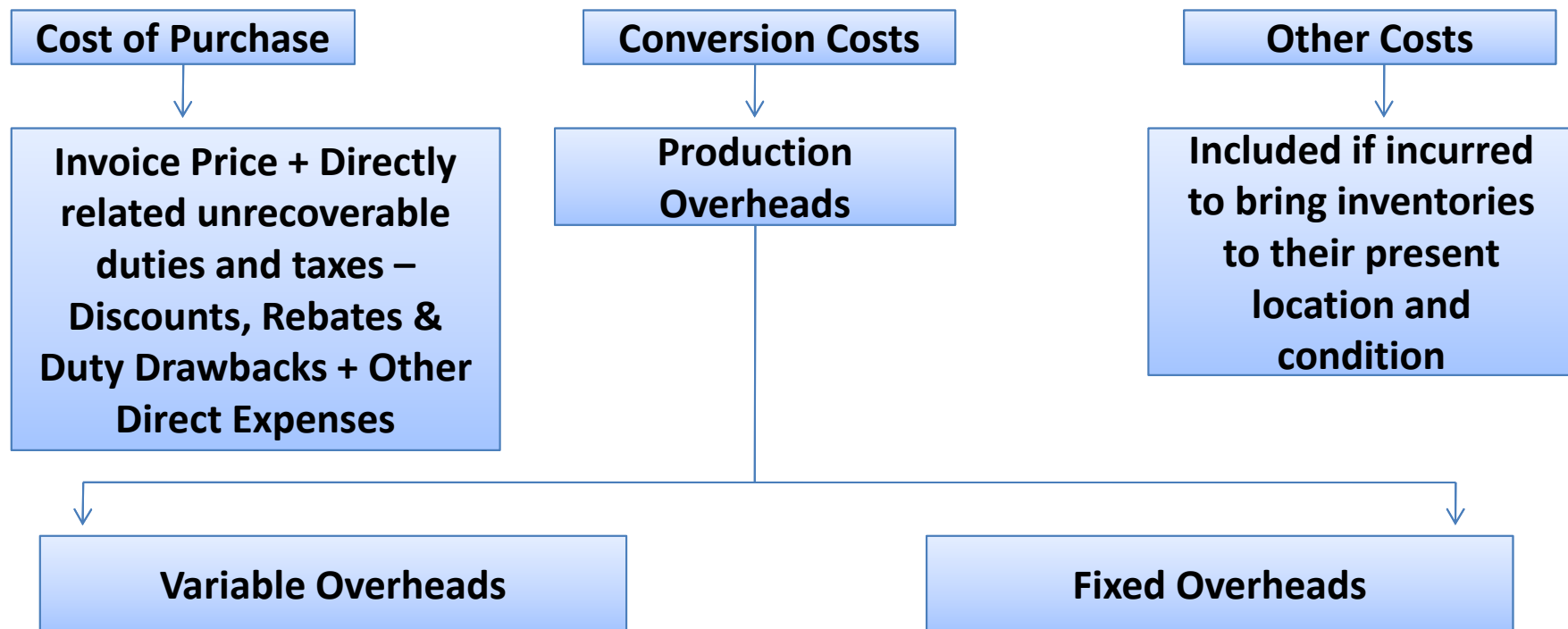
What are Inventories ?



- Held for sale in the ordinary course of business
- In the process of production for such sale
- In the form of materials or supplies to be consumed in the production process
- Measured at lower of Cost or NRV



Components of Cost





Costs excluded



- Abnormal amounts of wastage
- Storage costs unless incurring such costs are necessary
- Administrative overheads
- Selling costs
- Finance element in inventories purchased on deferred settlement terms



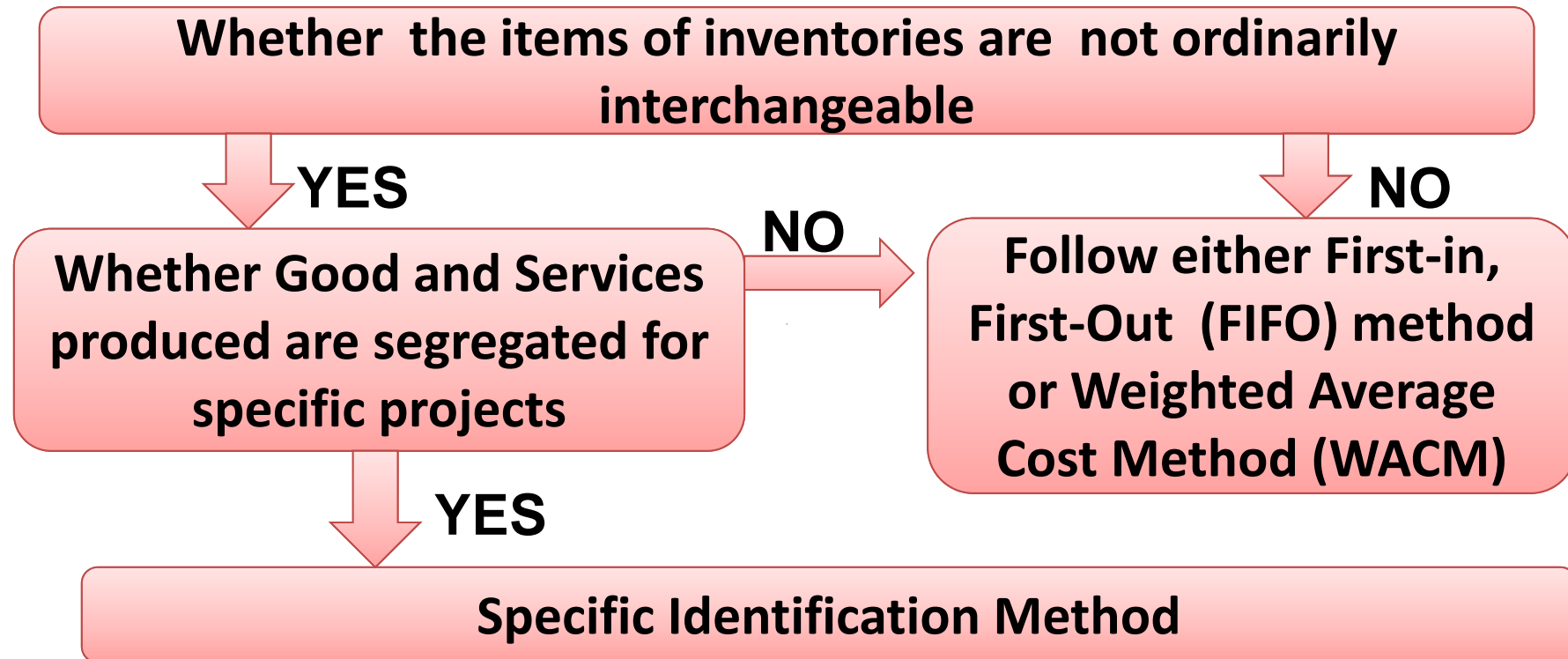
Fixed Overheads Absorption



- Under Absorption
 - Production lower than Normal Production Capacity
 - Fixed Overheads Absorbed = Fixed Overheads Absorption Rate (FOAR) * Actual Production
- Over Absorption
 - Production higher than normal capacity
 - Fixed Overheads Absorbed = Fixed Overheads Absorption Rate (FOAR) * Normal Production Capacity



Cost Formulas





Special Cases



- Joint Products
 - Costs allocated on relative sales value
- By products
 - Determine NRV of the by-product
 - Deduct the determined value from cost of main product
- Scrap, Waste Materials
 - At NRV
 - Deduct from cost of FG / WIP



Net Realisable Value



- NRV vis-a-vis FMV
- Manner of Estimation
- NRV of Material held for production process
- Assessment at the end of each reporting period
- NRV for Firm Contracts
 - Contracted Sales=Stock, Contract price
 - Contracted Sales>Stock, Contract Price
 - Contracted Sales<Stock
 - Contract price for Contracted Sales
 - Balance at Estimates



Expense Recognition



- Recognised as expense in the period in which related revenue is recognised
- Amount of write-down to NRV and all losses to be recognised as an expense in the period of the write-down or occurrence of loss
- Reversal of write-down to be recognised as an expense in the period in which the reversal occurs



Disclosures



- Accounting policy adopted including the cost formula adopted
- Total carrying amount of inventories
- Classification of carrying amount of inventories
- Amount of inventories carried at FV less costs to sell
- Amount of inventories recognised as an expense in the period
- Amount of write-down of inventories
- Amount of reversal of any write-down
- The circumstances or events that led to reversal of write-down
- Carrying amount of inventories pledged as securities



QUESTIONS





THANK YOU



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