ACCOUNTING MANUAL

Accounting Standards Reckoner

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Introduction to Accounting Standards Reckoner

The objective of financial statements is to provide information about the financial position, performance and cash flows of an enterprise that is useful to a wide range of users in making economic decisions.

Financial statements prepared for this purpose meet the common needs of most users. However, financial statements do not provide all the information that users may need to make economic decisions since (a) they largely portray the financial effects of past events, and (b) do not necessarily provide non-financial information.

Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the enterprise or whether to reappoint or replace the management.

Considering the various uses and to achieve a standardised comparability of the financial statements over periods in time or across organizations the accounting standards have been defined. The management of any company is mandated as per the Companies Act, 1956 to declare that the company has followed the Accounting Standards prescribed under section 211 of the companies Act, 1956. Considering these issues it is important that the requirements of these Standards are complied with in the accounting functions to the extent applicable. The checklist given below highlights the issues of the accounting standards applicable as on date and to be monitored. The Accounting Manual of the company contains detailed accounting treatment for various operations of the company. The accounting treatments enumerated are based on the Accounting Standards.

Accounting Standards and Issues

Accounting Standard (AS) 1 – Disclosure of Accounting Policies

This Accounting Standard is mandatory for all Companies. Whenever a decision is taken by the Company, there is a need to find out whether it has an impact on the Accounting Policies. The financial statements prepared should ensure that the Accounting Policies spelt out are in line with the Accounting Standards. It is relevant to point out that the Statutory Auditors are expected to affirm that the Company's Balance Sheet, Profit and Loss Account and Cash Flow Statement comply with the Accounting Standards.

Accounting Standard (AS) 2 – Valuation of Inventories

The revised standard comes into effect in respect of accounting periods commencing on or after 1.4.1999 and is mandatory in nature.

The Standard Mandates the Following:

1. Inventories should be valued at the lower of cost and net realisable value.
2. 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.

Specific Issues relating to AP Genco:

i) *The unique feature of Power sector is that electricity cannot be stored and hence there is no Finished Goods or Work in Progress in Stock. The inventories would generally comprise materials, stores and supplies and fuels. As per AS 2 these are required to be valued at lesser of cost or Net Realisable Value (NRV). Generally, in these circumstances the materials, stores and supplies and fuels are generally valued at cost.*

ii) *The cost of purchase of materials especially coal and fuel which form a major part of inventory should include:*

- *All duties and taxes (except those that are subsequently recoverable from the taxing authorities)*
- *Freight inwards on an actual basis.*
- *All expenditure attributable to bring the inventories to the current location and condition which includes the cost of freight cost, handling costs, other direct costs (like coal handling costs, railway employees' cost seconded to AP Genco etc) involved in moving the materials and converting it to the consumable stage.*

Accounting Standard (AS) 3 – Cash Flow Statements

It is mandatory for all enterprises listed in a recognised stock exchange in India or where the Turnover during the financial year is Rs. 50 Crores or more. It is essential that the financial statements of the Company contain information about the cash flows so as to enable the users of the same to assess the ability of the company to generate cash and cash equivalents and the needs to utilize those cash flows.

Specific Issues relating to AP Genco:

As can be seen from the standard the provisions of Accounting Standard – 3 are applicable to AP Genco and the Cash Flow should be drawn up in accordance with Accounting Standard – 3. It is recommended that the direct method of Cash Flow preparation be adopted which would present a clearer picture of how far each of the activities are contributing to or utilizing the cash resources of the company.

Accounting Standard (AS) 4 – Contingencies and Events Occurring After the Balance Sheet Date

This standard comes into effect in respect of accounting periods commencing on or after 1.4.1995 and is mandatory in nature and shall be complied with in its entirety.

This Statement deals with the treatment in financial statements of

1. Contingencies, and
2. Events occurring after the balance sheet date.

The following subjects, which may result in contingencies, are excluded from the scope of this Statement in view of special considerations applicable to them:

1. Liabilities of life assurance and general insurance enterprises arising from policies issued;
2. Obligations under retirement benefit plans; and
3. Commitments arising from long-term lease contracts.

Contingencies are defined as a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

Estimates are required for determining the amounts to be stated in the financial statements for many on-going and recurring activities of an enterprise. One must, however, distinguish between an event which is certain and one which is uncertain. For example, the fact that estimates of useful life are used to determine depreciation does not make depreciation a contingency; the eventual expiry of the useful life of the asset is not uncertain. Also, amounts owed for services received are not contingencies as defined, even though the amounts may have been estimated, as there is nothing uncertain about the fact that these obligations have been incurred.

Accounting treatment with detailed examples given in paras 5, 6 and 7 of the Accounting Standard may be referred to.

<u>The list of the Standard relating to contingencies is as given below</u>:

1. The amount of a contingent loss should be provided for by a charge in the statement of profit and loss if:

   (a) It is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability has been incurred as at the balance sheet date, and

   (b) A reasonable estimate of the amount of the resulting loss can be made.

2. The existence of a contingent loss should be disclosed in the financial statements if either of the conditions as given above is not met, unless the possibility of a loss is remote.

3. Contingent gains should not be recognised in the financial statements.

4. If disclosure of contingencies is required, the following information should be provided:

   (a) the nature of the contingency;

   (b) the uncertainties which may affect the future outcome;

   (c) an estimate of the financial effect, or a statement that such an estimate cannot be made.

Specific Issues relating to AP Genco:

To identify the contingent liabilities generally it can be done by reviewing all pending litigations/disputes and to evaluate the possibility of such liabilities arising in the future. Also a review of the legal expenses incurred would indicate any litigation missed out in review. The evaluation has to be done on a case-to-case basis after taking into consideration the facts of each individual case.

Events occurring after balance sheet date

Events occurring after the balance sheet date are those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity.

Two types of events can be identified:

1. those which provide further evidence of conditions that existed at the balance sheet date; and
2. those which are indicative of conditions that arose subsequent to the balance sheet date

The standard provides for adjustment of assets and liabilities if events occurring after the balance sheet date provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. For example, an adjustment may be made for a loss on a trade receivable account which is confirmed by the insolvency of a customer which occurs after the balance sheet date. This is simplistically explained as that adjustment shall be done only where the event occurring after the balance sheet date provides additional information regarding any financial information already recognised in the books as given in the example above. Where any event occurring after the balance sheet date pertains to an event which does not pertain to any entry recognised in the financial books as at the end of the year though material affects shall not be adjusted but disclosed if material

The gist of the standard is given below for reference

1. Assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date or that indicate that the fundamental accounting assumption of going concern (i.e., the continuance of existence or substratum of the enterprise) is not appropriate.

2. Dividends stated to be in respect of the period covered by the financial statements, which are proposed or declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted.

3. Disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

Accounting Standard (AS) 5 – Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

This revised standard comes into effect in respect of accounting periods commencing on or after 1.4.1996 and is mandatory in nature.

The definitions under this standard are given below:

1. Ordinary activities are any activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.

2. Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.

3. Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

Extraordinary Items

Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived. Eg: Any huge loss due to destruction of fixed assets, other assets due to natural calamities, fire etc.,

When items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Although the items of income and expense described above are not extraordinary items, the nature and amount of such items may be relevant to users of financial statements in understanding the financial position and performance of an enterprise and in making projections about financial position and performance. Disclosure of such information is sometimes made in the notes to the financial statements.

Circumstances, which may give rise to separate disclosure of items of income and expense, include:

1. the write-down of inventories to net realisable value as well as the reversal of such write-downs;
2. a restructuring of the activities of an enterprise and the reversal of any provisions for the costs of restructuring;
3. disposals of items of fixed assets;
4. disposals of long-term investments;
5. legislative changes having retrospective application;
6. litigation settlements; and
7. other reversals of provisions

Prior Period Items

The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

The term ‘prior period items’, as defined in this Statement, refers only to income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period, e.g., arrears payable to workers as a result of revision of wages with retrospective effect during the current period.

Prior period items are generally infrequent in nature and can be distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, income or expense recognised on the outcome of a contingency, which previously could not be estimated reliably, does not constitute a prior period item.

Prior period items are normally included in the determination of net profit or loss for the current period. An alternative approach is to show such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such transactions on the profit or loss of the company during any financial period.

Change in Accounting Estimates

The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:

1. the period of the change, if the change affects the period only; or
2. the period of the change and future periods, if the change affects both.

A change in an accounting estimate may affect the current period only or both the current period and future periods. For example, a change in the estimate of the amount of bad debts is recognised immediately and therefore affects only the current period. However, a change in the estimated useful life of a depreciable asset affects the depreciation in the current period and in each period during the remaining useful life of the asset. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods, is recognised in future periods.

The effect of a change in an accounting estimate should be classified using the same classification in the statement of profit and loss as was used previously for the estimate.

To ensure the comparability of financial statements of different periods, the effect of a change in an accounting estimate which was previously included in the profit or loss from ordinary activities is included in that component of net profit or loss. The effect of a change in an accounting estimate that was previously included as an extraordinary item is reported as an extraordinary item.

The nature and amount of a change in an accounting estimate which has a material effect in the current period, or which is expected to have a material effect in subsequent periods, should be disclosed. If it is impracticable to quantify the amount, the reasons for the same should be disclosed.

Changes in Accounting Policies

A change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise.

A more appropriate presentation of events or transactions in the financial statements occurs when the new accounting policy results in more relevant or reliable information about the financial position, performance or cash flows of the enterprise.

The following are not changes in accounting policies:

1. the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, e.g., introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement
2. the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial.

Any change in an accounting policy, which has a material effect, should be disclosed. The impact of, and the adjustments resulting from, such change, if material, should be shown in the financial statements of the period in which such change is made, to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.

Specific Issues relating to AP Genco:

Prior period items and extraordinary items need to be reviewed in detail. Any retrospective change by the regulator or change in the depreciation rates or issues governed by the Electricity Act has to be checked for adherence with these principles.

Accounting Standard (AS) 6 – Depreciation Accounting

This Statement deals with depreciation accounting and applies to all depreciable assets, except the following items to which special considerations apply:

1. Forests, plantations and similar regenerative natural resources
2. Wasting assets including expenditure on the exploration for and extraction of minerals, oils, natural gas and similar non-regenerative resources
3. Expenditure on research and development
4. Goodwill
5. Live stock

This statement also does not apply to land unless it has a limited useful life for the enterprise. The depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset.

Specific Issues relating to AP Genco:

Under the provisions of the Electricity Act, depreciation has to be provided at the rates prescribed by the Government of India / Regulatory Commission so as to ensure that 90% of the cost of each asset is provided for during its useful life .In respect of assets for which no specific rates have been prescribed by the regulatory authorities depreciation shall be provided for as per the minimum rates prescribed under Schedule XIV of the Company's Act 1956.

Accounting Standard (AS) 7 – Construction Contracts

The provisions of this accounting standard do not apply to AP Genco.

Accounting Standard (AS) 8 – Accounting for Research and Development

Accounting Standard 8 stands withdrawn from 01-04-2003 for enterprises that are listed in a stock exchange or whose annual turnover is Rs. 50 Crores or more. The provisions of Accounting Standard 8 are covered under Accounting Standard 26, which is discussed later in this paper.

Accounting Standard (AS) 9 – Revenue Recognition

This Accounting Standard is mandatory for all Companies. Internal Audit should review the financial statements to ensure that the standard is applied in its entirety. In the case of AP Genco significant revenues are from the sale of power it should be ensured that the revenue from units generated is recognised commencing 00.00 hours as on 1st April. As regards recognition of Government Grants as revenue the write-up under (AS) 12 – Accounting for Government Grants may be referred to.

Accounting Standard (AS) 10 – Accounting for Fixed Assets

This Accounting Standard is mandatory for all Companies. The financial statements prepared shall comply with the requirements of the standard in its entirety.

1. This statement does not deal with the specialised aspects of accounting for fixed assets that arise under a comprehensive system reflecting the effects of changing prices but applies to financial statements prepared on historical cost basis.

2. This statement does not deal with accounting for the following items to which special considerations apply:
   (a) forests, plantations and similar regenerative natural resources;
   (b) wasting assets including mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources;
   (c) expenditure on real estate development; and
   (d) Livestock.

3. Expenditure on individual items of fixed assets used to develop or maintain the activities covered in (i) to (iv) above, but separable from those activities, are to be accounted for in accordance with this Statement.

4. This statement does not cover the allocation of the depreciable amount of fixed assets to future periods since this subject is dealt with in Accounting Standard 6 on 'Depreciation Accounting'.
5. This statement does not deal with the treatment of government grants and subsidies, and assets under leasing rights. It makes only a brief reference to the capitalisation of borrowing costs and to assets acquired in an amalgamation or merger. These subjects require more extensive consideration than can be given within this Statement.

<u>Specific Issues relating to AP Genco</u>:

The power generation utility business is highly capital intensive. Adequate care should be taken to ensure that the capital and revenue expenses are differentiated and accounted for. The capitalisation principles as referred to above should be applied as a test to ensure that the capital expenses are accounted properly in accordance with the standard.

Accounting Standard (AS) 11 (Revised) – Accounting for the Effects of Changes in Foreign Exchange Rates

This Accounting Standard is mandatory for all Companies. The financial statements prepared shall ensure that the difference in exchange resulting from translation as well as discharge of liabilities in foreign currency related to fixed assets is adjusted to the carrying cost of fixed assets in respect of transactions contracted up to 31st March 2004 and charged to revenue effective 1st April 2004. The financial statements of the company shall ensure that the requirements of the standard are duly complied with.

Accounting Standard (AS) 12 – Accounting for Government Grants

This Standard is mandatory in respect of accounts for periods commencing on or after 1.4.1994.

This Statement deals with accounting for government grants. Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, etc.

This Statement does not deal with:

1. The special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature;
2. Government assistance other than in the form of government grants;
3. Government participation in the ownership of the enterprise.

The receipt of government grants by an enterprise is significant for preparation of the financial statements for two reasons. Firstly, if a government grant has been received, an appropriate method of accounting therefore is necessary. Secondly, it is desirable to give an indication of the extent to which the enterprise has benefited from such grant during the reporting period. This facilitates comparison of an enterprise's financial statements with those of prior periods and with those of other enterprises.

Capital Approach versus Income Approach

Two broad approaches may be followed for the accounting treatment of government grants: the 'capital approach', under which a grant is treated as part of shareholders' funds, and the 'income approach', under which a grant is taken to income over one or more periods.

Those in support of the 'capital approach' argue as follows:

1. Many government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in the case of such grants. These should, therefore, be credited directly to shareholders' funds.
2. It is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs.

It is generally considered appropriate that accounting for government grant should be based on the nature of the relevant grant. Grants which have the characteristics similar to those of promoters' contribution should be treated as part of shareholders' funds. Income approach may be more appropriate in the case of other grants.

Recognition of Government Grants

Government grants available to the enterprise are considered for inclusion in accounts:

1. Where there is reasonable assurance that the enterprise will comply with the conditions attached to them; and
2. Where such benefits have been earned by the enterprise and it is reasonably certain that the ultimate collection will be made.

Mere receipt of a grant is not necessarily conclusive evidence that conditions attaching to the grant have been or will be fulfilled.

An appropriate amount in respect of such earned benefits, estimated on a prudent basis, is credited to income for the year even though the actual amount of such benefits may be finally settled and received after the end of the relevant accounting period.

A contingency related to a government grant, arising after the grant has been recognised, is treated in accordance with Accounting Standard (AS) 4, Contingencies and Events Occurring After the Balance Sheet Date.

In certain circumstances, a government grant is awarded for the purpose of giving immediate financial support to an enterprise rather than as an incentive to undertake specific expenditure. Such grants may be confined to an individual enterprise and may not be available to a whole class of enterprises. These circumstances may warrant taking the grant to income in the period in which the enterprise qualifies to receive it, as an extraordinary item if appropriate (see Accounting Standard (AS) 5, Prior Period and Extraordinary Items and Changes in Accounting Policies).

Government grants may become receivable by an enterprise as compensation for expenses or losses incurred in a previous accounting period. Such a grant is recognised in the income statement of the period in which it becomes receivable, as an extraordinary item if appropriate (see Accounting Standard (AS) 5, Prior Period and Extraordinary Items and Changes in Accounting Policies).

Non-monetary Government Grants

Government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are recorded at a nominal value.

Presentation of Grants Related to Specific Fixed Assets

Two methods of presentation in financial statements of grants (or the appropriate portions of grants) related to specific fixed assets are regarded as acceptable alternatives.

Under one method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Where the grant equals the whole, or virtually the whole, of the cost of the asset, the asset is shown in the balance sheet at a nominal value.

Under the other method, grants related to depreciable assets are treated as deferred income, which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation to income is usually made over the periods and in the proportions in which depreciation on related assets is charged. Grants related to non-depreciable assets are credited to capital reserve under this method, as there is usually no charge to income in respect of such assets. However, if a grant related to a non-depreciable asset requires the fulfillment of certain obligations, the grant is credited to income over the same period over which the cost of meeting such obligations is charged to income. The deferred income is suitably disclosed in the balance sheet pending its apportionment to profit and loss account. For example, in the case of a company, it is shown after 'Reserves and Surplus' but before 'Secured Loans' with a suitable description, e.g., 'Deferred government grants'.

Presentation of Grants Related to Revenue

Grants related to revenue are sometimes presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, they are deducted in reporting the related expense.

Refund of Government Grants

Government grants sometimes become refundable because certain conditions are not fulfilled. A government grant that becomes refundable is treated as an extraordinary item (see Accounting Standard (AS) 5, Prior Period and Extraordinary Items and Changes in Accounting Policies.

The amount refundable in respect of a government grant related to revenue is applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement.

The amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset.

Disclosure

The following disclosures are appropriate:

1. the accounting policy adopted for government grants, including the methods of presentation in the financial statements;
2. the nature and extent of government grants recognised in the financial statements, including grants of non-monetary assets given at a concessional rate or free of cost.

Specific Issues relating to AP Genco:

AP Genco is a major recipient of Government Grants. It should be ensured that the grants are accounted for in an acceptable manner as defined above. Additionally, a consistent method of accounting for the same should also be followed.

Accounting Standard (AS) 13 – Accounting for Investments

This Statement does not deal with:

1. the bases for recognition of interest, dividends and rentals earned on investments which are covered by Accounting Standard 9 on Revenue Recognition;
2. operating or finance leases;
3. investments of retirement benefit plans and life insurance enterprises; and
4. mutual funds and/or the related asset management companies, banks and public financial institutions formed under a Central or State Government Act or so declared under the Companies Act, 1956.

Classification of Investments

Enterprises present financial statements that classify fixed assets, investments and current assets into separate categories. Investments are classified as long term investments and current investments. Current investments are in the nature of current assets, although the common practice may be to include them in investments.

Investments other than current investments are classified as long term investments, even though they may be readily marketable.

Cost of Investments

The cost of an investment includes acquisition charges such as brokerage, fees and duties.

If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost is the fair value of the securities issued

If an investment is acquired in exchange, or part exchange, for another asset, the acquisition cost of the investment is determined by reference to the fair value of the asset given up.

Interest, dividends and rentals receivables in connection with an investment are generally regarded as income, being the return on the investment. However, in some circumstances, such inflows represent a recovery of cost and do not form part of income. For example, when unpaid interest has accrued before the acquisition of an interest-bearing investment and is therefore included in the price paid for the investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion is deducted from cost.

Current Investments

The carrying amount for current investments is the lower of cost and fair value. In respect of investments for which an active market exists, market value generally provides the best evidence of fair value. The valuation of current investments at lower of cost and fair value provides a prudent method of determining the carrying amount to be stated in the balance sheet.

The more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.

For current investments, any reduction to fair value and any reversals of such reductions are included in the profit and loss statement.

Long-term Investments

Long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognise the decline. Indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. The type and extent of the investor's stake in the investee are also taken into account. Restrictions on distributions by the investee or on disposal by the investor may affect the value attributed to the investment.

Long-term investments are usually of individual importance to the investing enterprise. The carrying amount of long-term investments is therefore determined on an individual investment basis.

Where there is a decline, other than temporary, in the carrying amounts of long term investments, the resultant reduction in the carrying amount is charged to the profit and loss statement. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

Disclosure

The following disclosures in financial statements in relation to investments are appropriate:-

1. the accounting policies for the determination of carrying amount of investments;
2. the amounts included in profit and loss statement for:
   (a) interest, dividends (showing separately dividends from subsidiary companies), and rentals on investments showing separately such income from long term and current investments. Gross income should be stated, the amount of income tax deducted at source being included under Advance Taxes Paid;
   (b) profits and losses on disposal of current investments and changes in carrying amount of such investments;
   (c) profits and losses on disposal of long term investments and changes in the carrying amount of such investments;

3. significant restrictions on the right of ownership, realisability of investments or the remittance of income and proceeds of disposal;

4. the aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;

5. other disclosures as specifically required by the relevant statute governing the enterprise.

Specific Issues relating to AP Genco:

Investments have to be treated and accounted as defined above with adequate disclosures as prescribed under the standard.

Accounting Standard (AS) 14 – Accounting for Amalgamations

Methods of Accounting for Amalgamations
There are two main methods of accounting for amalgamations:

1. Pooling of interests method; and
2. Purchase method.

The object of the purchase method is to account for the amalgamation by applying the same principles as are applied in the normal purchase of assets. This method is used in accounting for amalgamations in the nature of purchase.

1. The Pooling of Interests Method

Under the pooling of interests method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts. If, at the time of the amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with Accounting Standard (AS) 5, 'Prior Period and Extraordinary Items and Changes in Accounting Policies'.

2. The Purchase Method

Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

Where assets and liabilities are restated on the basis of their fair values, the determination of fair values may be influenced by the intentions of the transferee company. For example, the transferee company may have a specialised use for an asset, which is not available to other potential buyers. The transferee company may intend to effect changes in the activities of the transferor company which necessitate the creation of specific provisions for the expected costs, e.g. planned employee termination and plant relocation costs.

Disclosure

For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation:

1. names and general nature of business of the amalgamating companies;
2. effective date of amalgamation for accounting purposes;
3. the method of accounting used to reflect the amalgamation; and
4. particulars of the scheme sanctioned under a statute.

For amalgamations accounted for under the pooling of interests method, the following additional disclosures should be made in the first financial statements following the amalgamation:

1. description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation;
2. the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations accounted for under the purchase method, the following additional disclosures should be made in the first financial statements following the amalgamation:

1. consideration for the amalgamation and a description of the consideration paid or contingently payable; and
2. the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

Amalgamation after the Balance Sheet Date

When an amalgamation is effected after the balance sheet date but before the issuance of the financial statements of either party to the amalgamation, disclosure should be made in accordance with AS 4, 'Contingencies and Events Occurring After the Balance Sheet Date', but the amalgamation should not be incorporated in the financial statements. In certain circumstances, the amalgamation may also provide additional information affecting the financial statements themselves, for instance, by allowing the going concern assumption to be maintained.

***Specific Issues relating to AP Genco*:**

At present this accounting standard is not required for AP Genco but in the instance of an amalgamation or merger these issues have to be kept in mind.

Accounting Standard (AS) 15 – Accounting for Retirement benefits in the Financial Statements of Employers

In respect of retirement benefits in the form of provident fund and other defined contribution schemes, the contribution payable by the employer for a year should be charged to the statement of profit and loss for the year. Thus, besides the amount of contribution paid, any shortfall in the amount of contribution paid compared to the amount payable for the year should also be charged to the statement of profit and loss for the year. On the other hand, if contribution paid is in excess of the amount payable for the year, the excess should be treated as a pre-payment.

In respect of gratuity benefit and other defined benefit schemes, the accounting treatment will depend on the type of arrangement which the employer has chosen to make.

1. If the employer has chosen to make payment for retirement benefits out of his own funds, an appropriate charge to the statement of profit and loss for the year should be made through a provision for the accruing liability. The accruing liability should be calculated according to actuarial valuation. However, those enterprises which employ only a few persons may calculate the accrued liability by reference to any other rational method e.g. a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.
2. In case the liability for retirement benefits is funded through creation of a trust, the cost incurred for the year should be determined actuarially. Such actuarial valuation should normally be conducted at least once in every three years. However, where the actuarial valuations are not conducted annually, the actuary's report should specify the contributions to be made by the employer on annual basis during the inter-valuation period. This annual contribution (which is in addition to the contribution that may be required to finance unfunded past service cost) reflects proper accrual of retirement benefit cost for each of the years during the inter-valuation period and should be charged to the statement of profit and loss for each such year. Where the contribution paid during a year is lower than the amount required to be contributed during the year to meet the accrued liability as certified by the actuary, the shortfall should be charged to the statement of profit and loss for the year. Where the contribution paid during a year is in excess of the amount required to be contributed during the year to meet the accrued liability as certified by the actuary, the excess should be treated as a pre-payment.
3. In case the liability for retirement benefits is funded through a scheme administered by an insurer, an actuarial certificate or a confirmation from the insurer should be obtained that the contribution payable to the insurer is the appropriate accrual of the liability for the year. Where the contribution paid during a year is lower than amount required to be contributed during the year to meet the accrued liability as certified by the actuary or confirmed by the insurer, as the case may be, the shortfall should be charged to the statement of profit and loss for the year. Where the contribution paid during a year is in excess of the amount required to be contributed during the year to meet the accrued liability as certified by the actuary or confirmed by the insurer, as the case may be, the excess should be treated as a pre-payment.

Any alterations in the retirement benefit costs arising from -

1. introduction of a retirement benefit scheme for existing employees or making of improvements to an existing scheme, or
2. changes in the actuarial method used or assumptions adopted,

should be charged or credited to the statement of profit and loss as they arise in accordance with Accounting Standard (AS) 5, 'Prior Period and Extraordinary Items and Changes in Accounting Policies'. Additionally, a change in the actuarial method used should be treated as a change in an accounting policy and disclosed in accordance with Accounting Standard (AS) 5, 'Prior Period and Extraordinary Items and Changes in Accounting Policies.

When a retirement benefit scheme is amended with the result that additional benefits are provided to retired employees, the cost of the additional benefits should be accounted for in accordance as above.

Disclosures

The financial statements should disclose the method by which retirement benefit costs for the period have been determined. In case the costs related to gratuity and other defined benefit schemes are based on an actuarial valuation, the financial statements should also disclose whether the actuarial valuation was made at the end of the period or at an earlier date. In the latter case, the date of the actuarial valuation should be specified and the method by which the accrual for the period has been determined should also be briefly described, if the same is not based on the report of the actuary.

Specific Issues relating to AP Genco:

Retirement benefits form a major part of the revenue statements of AP Genco. Care should be taken to ensure that the provisions made in the accounts are truly reflective of the actual liability, as any short fall will have a material impact in the year of the actual payout.

Accounting Standard (AS) 16 – Borrowing Costs

Recognition

Borrowing costs that are directly attributable to 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 Statement. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period

Commencement of Capitalisation

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

1. expenditure for the acquisition, construction or production of a qualifying asset is being incurred;
2. borrowing costs are being incurred; and
3. activities that are necessary to prepare the asset for its intended use or sale are in progress.

Suspension of Capitalisation

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

Cessation of Capitalisation

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.

Disclosure

The financial statements should disclose:

1. the accounting policy adopted for borrowing costs; and
2. the amount of borrowing costs capitalised during the period.

Specific Issues relating to AP Genco:

This standard is very relevant to AP Genco as the capital expansions span over a period of years. In these circumstances the capitalisation of the borrowing cots has a very material effect on the financial statements. This standard should be strictly implemented in letter and spirit to ensure due compliance.

Accounting Standard (AS) 17 – Segmental Reporting

Primary Reporting Format

An enterprise should disclose the following for each reportable segment:

1. segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segments;
2. segment result;
3. total carrying amount of segment assets;
4. total amount of segment liabilities;
5. total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets);
6. total amount of expense included in the segment result for depreciation and amortisation in respect of segment assets for the period; and
7. total amount of significant non-cash expenses, other than depreciation and amortisation in respect of segment assets that were included in segment expense and, therefore, deducted in measuring segment result.

   An enterprise that reports the amount of cash flows arising from operating, investing and financing activities of a segment need not disclose depreciation and amortisation expense and non-cash expenses of such segment.

An enterprise should present reconciliation between the information disclosed for reportable segments and the aggregated information in the enterprise financial statements. In presenting the reconciliation, segment revenue should be reconciled to enterprise revenue; segment result should be reconciled to enterprise net profit or loss; segment assets should be reconciled to enterprise assets; and segment liabilities should be reconciled to enterprise liabilities.

If primary format of an enterprise for reporting segment information is business segments, it should also report the following information:

(a) segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue;

(b) the total carrying amount of segment assets by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments; and

(c) the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets) by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments.

If primary format of an enterprise for reporting segment information is geographical segments (whether based on location of assets or location of customers), it should also report the following segment information for each business segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue or whose segment assets are 10 per cent or more of the total assets of all business segments:

(a) segment revenue from external customers;

(b) the total carrying amount of segment assets; and

(c) the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets).

Specific Issues relating to AP Genco:

Accounting Standard 17 is primarily a disclosure oriented standard and the operating results of various segments of business carried on need to be disclosed in the financial statements .It may however be noted that in view of the fact that the generation of power being the primary business of AP Genco this standard may not be applicable.

Accounting Standard (AS) 18 – Related Party Disclosure

This standard is not applicable to AP Genco

Accounting Standard (AS) 19 – Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.

An operating lease is a lease other than a finance lease.

Specific Issues relating to AP Genco:

The accounting treatment of leases that have been prescribed in this standard need be complied with in respect of such transactions entered into by AP Genco on or after 1st April 2001..

Accounting Standard (AS) 20 – Earnings per Share

An enterprise should present basic and diluted earnings per share on the face of the statement of profit and loss for each class of equity shares that has a different right to share in the net profit for the period. An enterprise should present basic and diluted earnings per share with equal prominence for all periods presented.

This Statement requires an enterprise to present basic and diluted earnings per share, even if the amounts disclosed are negative (a negative earning per share). This standard is again disclosure oriented and should be adhered to.

Accounting Standard (AS) 21 – Consolidated Financial Statements

This is not applicable to AP Genco

Accounting Standard (AS) 22 – Accounting for Taxes on Income

The objective of this Standard is to prescribe an accounting treatment for taxes on income. Taxable income is calculated in accordance with tax laws. In some circumstances, the requirements of these laws to compute taxable income differ from the accounting policies applied to determine accounting income. The effect of this difference is that the taxable income and accounting income may not be the same.

Current tax is the 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.

Tax expense for the period, comprising current tax and deferred tax, should be included in the determination of the net profit or loss for the period.

Deferred tax should be recognised for all the timing differences, subject to the consideration of prudence in respect of deferred tax assets.

Current tax should be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the applicable tax rates and tax laws.
Deferred tax assets and liabilities should be measured using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities should not be discounted to their present value.

The carrying amount of deferred tax assets should be reviewed at each balance sheet date. An enterprise should write-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write-down may be reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be that sufficient future taxable income will be available**.**

Presentation and Disclosure

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

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

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

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

Deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. 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.

Transitional Provisions

On the first occasion that the taxes on income are accounted for in accordance with this Statement, the enterprise should recognise, in the financial statements, the deferred tax balance that has accumulated prior to the adoption of this Statement as deferred tax asset/liability with a corresponding credit/charge to the revenue reserves, subject to the consideration of prudence in case of deferred tax assets The amount so credited/charged to the revenue reserves should be the same as that which would have resulted if this Statement had been in effect from the beginning.

For the purpose of determining accumulated deferred tax in the period in which this Statement is applied for the first time, the opening balances of assets and liabilities for accounting purposes and for tax purposes are compared and the differences, if any, are determined. The tax effects of these differences, if any, should be recognised as deferred tax assets or liabilities, if these differences are timing differences. For example, in the year in which an enterprise adopts this Statement, the opening balance of a fixed asset is Rs. 100 for accounting purposes and Rs. 60 for tax purposes. The difference is because the enterprise applies written down value method of depreciation for calculating taxable income whereas for accounting purposes straight-line method is used. This difference will reverse in future when depreciation for tax purposes will be lower as compared to the depreciation for accounting purposes. In the above case, assuming that enacted tax rate for the year is 40% and that there are no other timing differences, deferred tax liability of Rs. 16 [(Rs. 100 - Rs. 60) x 40%] would be recognised. Another example is an expenditure that has already been written off for accounting purposes in the year of its incurrence but is allowable for tax purposes over a period of time. In this case, the asset representing that expenditure would have a balance only for tax purposes but not for accounting purposes. The difference between balance of the asset for tax purposes and the balance (which is nil) for accounting purposes would be a timing difference which will reverse in future when this expenditure would be allowed for tax purposes. Therefore, a deferred tax asset would be recognised in respect of this difference subject to the consideration of prudence

***Specific Issues relating to AP Genco*:**

This standard especially the transitional provisions come into effect from the accounting year commencing on 01/04/2002. The transitional provisions have to be strictly adhered to and considering the history of losses the treatment and creation of deferred tax asset has to be looked into thoroughly keeping in mind the prudence of carrying the asset in the books.

Accounting Standard (AS) 23 – Accounting for Investments in Associates in Consolidated Financial Statements

This Standard is not applicable to AP Genco at present.

Accounting Standard (AS) 24 – Discontinuing Operations

A discontinuing operation is a component of an enterprise:

1. that the enterprise, pursuant to a single plan, is:
   (a) disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or
   (b) disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or
   (c) terminating through abandonment; and
2. that represents a separate major line of business or geographical area of operations; and
3. that can be distinguished operationally and for financial reporting purposes

Initial Disclosure Event

With respect to a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

(a) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or

(b) the enterprise’s board of directors or similar governing body has both approved a detailed ,formal plan for the discontinuance and made an announcement of the plan.

Specific Issues relating to AP Genco:

This standard will be applicable in case the company plans for any discontinuance of operations of any of its power generating units

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Accounting Standard (AS) 25 – Interim Financial Reporting

Even though not applicable presently, this standard is to be complied in case the company decides to publicise the interim financial report.

Accounting Standard (AS) 26 – Intangible Assets

Scope

This Statement applies to, among other things, expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (for example, a prototype), the physical element of the asset is secondary to its intangible component, that is the knowledge embodied in it.

Disclosure Requirement

The financial statements should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

1. the useful lives or the amortization rates and methods used
2. the gross carrying amount and the accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;

For disclosure in the financial statements, the company should take care of clause 94 of the standard.

Accounting Standard (AS) 27 – Financial Reporting of Interests in Joint Ventures

Presently This Standard is not applicable to AP Genco at present.

Accounting Standard (AS) 28 – Impairment of Assets

The objective of this Statement is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Statement requires the enterprise to recognise an impairment loss. This Statement also specifies when an enterprise should reverse an impairment loss and it prescribes certain disclosures for impaired assets.

Scope

This Statement should be applied in accounting for the impairment of all assets, other than:

1. inventories (see AS 2, Valuation of Inventories);
2. assets arising from construction contracts (see AS 7, Accounting for Construction Contracts);
3. financial assets, including investments that are included in the scope of AS 13, Accounting for Investments; and
4. deferred tax assets (see AS 22, Accounting for Taxes on Income).

This Statement does not apply to inventories, assets arising from construction contracts, deferred tax assets or investments because existing Accounting Standards applicable to these assets already contain specific requirements for recognising and measuring the impairment related to these assets.

This Statement applies to assets that are carried at cost. It also applies to assets that are carried at revalued amounts in accordance with other applicable Accounting Standards. However, identifying whether a revalued asset may be impaired depends on the basis used to determine the fair value of the asset:

1. if the fair value of the asset is its market value, the only difference between the fair value of the asset and its net selling price is the direct incremental costs to dispose of the asset:

   (a) if the disposal costs are negligible, the recoverable amount of the revalued asset is necessarily close to, or greater than, its revalued amount (fair value). In this case, after the revaluation requirements have been applied, it is unlikely that the revalued asset is impaired and recoverable amount need not be estimated; and

   (b) if the disposal costs are not negligible, net selling price of the revalued asset is necessarily less than its fair value. Therefore, the revalued asset will be impaired if its value in use is less than its revalued amount (fair value). In this case, after the revaluation requirements have been applied, an enterprise applies this Statement to determine whether the asset may be impaired; and

***Specific Issues relating to AP Genco**:*

In the light of the above standard coming into effect from 01-04-04, the company should examine various categories of assets with reference to the value stated there against and where there is excess amount as compared to recoverable value such amount is to be written off as impairment loss.

Accounting Standard (AS)-29- Provisions, Contingent Liabilities and Contingent Assets

Accounting Standard (AS) 29, 'Provisions, Contingent Liabilities and Contingent Assets', issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2004. This Standard is mandatory in nature from that date

The above Accounting Standard is applicable to AP Genco and all its financial statements prepared from the effective date mentioned above shall comply with the requirements of this Standard.

A provision should be recognised when:

(a) an enterprise has a present obligation as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits 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.

An enterprise should not recognise a contingent liability

An enterprise should not recognise a contingent asset.

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.

The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision.

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.

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

Provisions should be reviewed at each balance sheet date 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 should be reversed.

Disclosure

For each class of provision, an enterprise 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 (i.e. incurred and charged against the provision) during the period; and

(d) unused amounts reversed during the period.

An enterprise 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;

(b) an indication of the uncertainties about those outflows. Where necessary to provide adequate information, an enterprise should disclose the major assumptions made concerning future events, as addressed in paragraph 41; and

(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:

(a) an estimate of its financial effect, measured under paragraphs 35-45;

(b) an indication of the uncertainties relating to any outflow; and

(c) the possibility of any reimbursement.