

# Presentation of Financial Statements

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## Accounting Standard for Local Bodies (ASLB) 1

# Presentation of Financial Statements

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

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

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

## Objective

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

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

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

## Scope

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

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

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

**5. This Standard applies to the entities described as Local Bodies in the Preface to the Accounting Standards for Local Bodies<sup>4</sup>.**

6. [Refer to Appendix 1]

## Definitions

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

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

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

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<sup>3</sup> The proposed Accounting Standard for Local Bodies on 'Consolidated and Separate Financial Statements' is under preparation.

<sup>4</sup> Refer paragraph 1.3 of the 'Preface to the Accounting Standards for Local Bodies'.

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

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

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

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

## **Economic Entity**

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

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

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

## **Future Economic Benefits or Service Potential**

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

12. [Refer to Appendix 1]

## **Materiality**

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

## **Equity**

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

## **Purpose of Financial Statements**

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

16. [Refer to Appendix 1]

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

- (a) Assets;
- (b) Liabilities;
- (c) Equity;
- (d) Revenue;
- (e) Expenses;
- (f) Other changes in equity; and
- (g) Cash flows.

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

## **Responsibility for Financial Statements**

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

20. [Refer to Appendix 1]

## **Components of Financial Statements**

**21. *A complete set of financial statements comprises:***

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

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- (b) An Income and expenditure statement;**
- (c) A cash flow statement; and**
- (d) Notes, comprising a summary of significant accounting policies and other explanatory notes.**

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

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

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

- (a) The use of a columnar format with separate columns for budgeted amounts and actual amounts. A column showing any variances from the budget or appropriation may also be presented, for completeness; and
- (b) Disclosure that the budgeted amounts have not been exceeded. If any budgeted amounts or appropriations have been exceeded, or expenses incurred without appropriation or other form of authority, then details may be disclosed by way of footnote to the relevant item.

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



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

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

## **Overall Considerations**

### **Presentation of true and fair view and compliance with ASLBs**

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

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

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<sup>5</sup> 'The Conceptual Framework for General Purpose Financial Reporting by Local Bodies' is under formulation.

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

- (a) To select and apply accounting policies in accordance with the ASLB 3, '*Accounting Policies, Changes in Accounting Estimates and Errors*' which sets out a hierarchy of authoritative guidance that management considers in the absence of a Standard that specifically applies to an item.
- (b) To present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- (c) To provide additional disclosures when compliance with the specific requirements in ASLB is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

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

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

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

- (b) That it has complied with applicable ASLBs, except that it has departed from a particular requirement to achieve presentation of true and fair view;**
- (c) The title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this Standard, and the treatment adopted; and**
- (d) For each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.**

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

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

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

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

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

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

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

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

## **Going Concern**

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

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

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

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

- (a) In assessing whether a local body is a going concern, the power to levy rates or taxes may enable some entities to be considered as a going concern even though they may operate for extended periods with negative equity; and
- (b) For an individual entity, an assessment of its balance sheet at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the entity.

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

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

## **Consistency of Presentation**

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

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

**(b) *An ASLB requires a change in presentation.***

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

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

## **Materiality and Aggregation**

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

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

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

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

## **Offsetting**

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

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

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

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

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

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

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

52. The offsetting of cash flows is dealt with in ASLB on 'Cash Flow Statements'<sup>6</sup>.

## Comparative Information

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

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

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

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<sup>6</sup> The proposed Accounting Standard for Local Bodies on 'Cash Flow Statements' is under preparation.



- (a) *The nature of the reclassification;*
- (b) *The amount of each item or class of items that is reclassified; and*
- (c) *The reason for the reclassification.*

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

- (a) *The reason for not reclassifying the amounts; and*
- (b) *The nature of the adjustments that would have been made if the amounts had been reclassified.*

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

58. [Refer to Appendix 1]

## **Structure and Content**

### **Introduction**

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

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

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

## **Identification of the Financial Statements**

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

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

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

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

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<sup>7</sup>The proposed Accounting Standard for Local Bodies on, 'The Effects of Changes in Foreign Exchange Rates' is under preparation.

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

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

## **Reporting Period**

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

- (a) *The reason for using a longer or shorter period; and***
- (b) *The fact that comparative amounts for certain statements such as the income and expenditure statement, statement of changes in equity annexed to the balance sheet, cash flow statement and related notes are not entirely comparable.***

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

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68. [Refer to Appendix 1]

69. [Refer to Appendix 1]

## **Balance Sheet**

### *Current/Non-current Distinction*

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

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

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

73. [Refer to Appendix 1]

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

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

### *Current Assets*

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

- (a) It is expected to be realised in, or is held for sale or consumption in, the entity's normal operating cycle;**
- (b) It is held primarily for the purpose of being traded;**
- (c) It is expected to be realised within twelve months after the reporting date; or**
- (d) It is cash or a cash equivalent (as defined in proposed ASLB on 'Cash Flow Statements' unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date).**

**All other assets should be classified as non-current.**

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

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

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

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

### *Current Liabilities*

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

- (a) It is expected to be settled in the entity's normal operating cycle;**
- (b) It is held primarily for the purpose of being traded;**
- (c) It is due to be settled within twelve months after the reporting date; or**
- (d) The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.**

**All other liabilities should be classified as non-current.**

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

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

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

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

- (a) The original term was for a period longer than twelve months; and
- (b) An agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

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

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

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

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

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

*Information to be Presented on the Face of the Balance Sheet*

**88. As a minimum<sup>8</sup>, the face of the balance sheet should include line items that present the following amounts:**

- (a) Property, plant and equipment;**
- (b) Investment property;**
- (c) Intangible assets;**
- (d) Biological assets (i.e. living, plants and animals)**
- (e) Investments accounted for using the equity method;**
- (f) Other investments (excluding amounts shown under (e), (h), (i) and (j));**
- (g) Inventories;**
- (h) Recoverables from non-exchange transactions (taxes and transfers);**
- (i) Receivables from exchange transactions;**
- (j) Cash and cash equivalents;**
- (k) Taxes and transfers payable;**
- (l) Payables under exchange transactions;**
- (m) Provisions;**
- (n) liabilities (excluding amounts shown under (k), (l) and (m));**

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<sup>8</sup> Those items to be presented which are relevant to the reporting entity.



- (o) **Minority interest, presented within equity; and**
- (p) **Equity/reserves and surplus attributable to owners of the controlling entity.**

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

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

- (a) Line items are included when the size, nature, or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and
- (b) The descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position.

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

- (a) The nature and liquidity of assets;
- (b) The function of assets within the entity; and
- (c) The amounts, nature and timing of liabilities.

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

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

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

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

- (a) Items of property, plant and equipment are disaggregated into classes in accordance with ASLB 17, 'Property, Plant and Equipment';
- (b) Receivables are disaggregated into amounts receivable from user charges, taxes and other non-exchange revenues, prepayments and other amounts;
- (c) Inventories are sub classified in accordance with ASLB 12, 'Inventories' into classifications such as merchandise, production supplies, materials, work in progress and finished goods;
- (d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;
- (e) Provisions are disaggregated into provisions for employee benefits and other items; and
- (f) Components of equity are disaggregated into contributed capital, accumulated surpluses and deficits and any reserves.

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

- (a) Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;**
- (b) Accumulated surpluses or deficits;**
- (c) Reserves, including a description of the nature and purpose of each reserve within equity; and**
- (d) Minority interests.**

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

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

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

- (a) For each class of share capital:**
  - (i) The number of shares authorised;**
  - (ii) The number of shares issued and fully paid, and issued but not fully paid;**
  - (iii) Par value per share, or that the shares have no par value;**
  - (iv) A reconciliation of the number of shares outstanding at the beginning and at the end of the year;**

- (v) *The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;*
  - (vi) *Shares in the entity held by the entity or by its controlled entities or associates; and*
  - (vii) *Shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and*
- (b) *A description of the nature and purpose of each reserve within equity.*

## **Income and Expenditure Statement**

### *Surplus or Deficit for the Period*

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

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

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

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

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

- (a) Revenue;**
- (b) Employee costs;**
- (c) Finance costs;**
- (d) Depreciation and amortisation;**
- (e) Other operating expenditure;**
- (f) Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;**
- (g) Minority interest share of surplus or deficit; and**
- (h) Surplus or deficit.**

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

- (a) Surplus or deficit attributable to minority interest; and**
- (b) Surplus or deficit attributable to owners of the controlling entity.**

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

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

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

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

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

- (a) Write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount or recoverable service amount as appropriate, as well as reversals of such write-downs;
- (b) Restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
- (c) Disposals of items of property, plant and equipment;
- (d) Litigation settlements; and
- (e) Other reversals of provisions.

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

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

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

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

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

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

Revenue		X
Employee benefits costs	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses	<hr/>	(X)
Surplus		<hr/> <hr/>

113. [Refer to Appendix 1]

114. [Refer to Appendix 1]

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

116. [Refer to Appendix 1]

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

## **Statement of Changes in Equity**

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

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

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

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

- (a) The amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;**
- (b) The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period; and**
- (c) To the extent that components of equity are separately disclosed, a reconciliation between the carrying amount of each component of equity at the beginning and the end of the period, separately disclosing each change.**

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

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

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



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

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

124. [Refer to Appendix 1]

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

## **Cash Flow Statement**

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

## **Notes**

### *Structure*

127. The notes should:

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

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

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

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

- (a) A statement of compliance with ASLBs (see paragraph 28);
- (b) A summary of significant accounting policies applied (see paragraph 132);
- (c) Supporting information for items presented on the face of the balance sheet in the statement of changes in equity annexed to the balance sheet, income and expenditure statement, or cash flow statement, in the order in which each statement and each line item is presented; and
- (d) Other disclosures, including Contingent liabilities (see ASLB 19, *'Provisions, Contingent Liabilities and Contingent Assets'*), and unrecognised contractual commitments.

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

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

### *Disclosure of Accounting Policies*

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

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

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

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

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

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

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

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

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

- a. The measurement base applied is historical cost adjusted for revaluations of assets.
- b. The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

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

139. [Refer to Appendix 1]

### *Key Sources of Estimation Uncertainty*

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

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

- (a) Their nature; and***
- (b) Their carrying amount as at the reporting date.***

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

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

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

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

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

- (a) The nature of the assumption or other estimation uncertainty;
- (b) The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
- (c) An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

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

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

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

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

## Capital

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

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

- (a) Qualitative information about its objectives, policies, and processes for managing capital, including (but not limited to):
  - (i) A description of what it manages as capital;
  - (ii) When an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
  - (iii) How it is meeting its objectives for managing capital.
- (b) Summary quantitative data about what it manages as capital.
- (c) Any changes in (a) and (b) from the previous period.
- (d) Whether during the period it complied with any externally imposed capital requirements to which it is subject.
- (e) When the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance. These disclosures should be based on the information provided internally to the entity's key management personnel.

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

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

### *Other Disclosures*

149. [Refer to Appendix 1]

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

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

## **Transitional Provisions**

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

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



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153. [Refer to Appendix 1]

154. [Refer to Appendix 1]

155. [Refer to Appendix 1]

## Appendix A

### Implementation Guidance – Illustrative Financial Statement Structure

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

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

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

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

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

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

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<sup>9</sup> The format may be suitably supplemented and substituted due to change arising from other Standards

**LOCAL BODY – BALANCE SHEET AS OF 31<sup>ST</sup> MARCH \_\_\_\_\_**

(Rs. in Thousands)

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

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<ul style="list-style-type: none"> <li>(d) Intangible Assets                             <ul style="list-style-type: none"> <li>(i) Goodwill</li> <li>(ii) Other Intangible assets</li> <li>(iii) Intangible assets under development</li> </ul> </li> <li>(e) Biological Assets</li> <li>(f) Long-term investments</li> <li>(g) Long-term loans and advances</li> <li>(h) Other non-current assets</li> </ul> <p><b>Current assets</b></p> <ul style="list-style-type: none"> <li>(a) Inventories</li> <li>(b) Current investments</li> <li>(c) Recoverable from non-exchange transactions (taxes and transfers)</li> <li>(d) Receivables from exchange transactions</li> <li>(e) Cash and cash equivalents</li> <li>(f) Short-term loans and advances</li> <li>(g) Other current assets</li> </ul>			
<b>TOTAL</b>			

**LOCAL BODY – INCOME AND EXPENDITURE STATEMENT FOR THE  
YEAR ENDED 31<sup>ST</sup> MARCH \_\_\_\_\_**

(Rs. in Thousands)

(Classification of Expenses by Nature)

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

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

**LOCAL BODY – STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31<sup>ST</sup> MARCH \_\_\_\_\_**

(Rs. in Thousands)

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

## Appendix 1

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

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

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

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

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

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

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

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

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



*Presentation of Financial Statements*

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

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

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

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

## Appendix 2

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

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

ASLB 1 generally deals with presentation of financial statements, whereas existing AS 1 (issued 1979) deals only with the disclosure of accounting policies. The scope covered by the standard is thus much wider and line by line comparison of the standard with the existing AS 1 is not possible. However, the major requirements as laid down in the standard are as follows:

- An entity should make an explicit statement in the financial statements of compliance with Accounting Standards for Local Bodies. Further, the standard allow deviation from a requirement of a standard in case the management concludes that compliance with ASLBs will be misleading and if the regulatory framework requires or does not prohibit such a departure.
- ASLB 1 requires presentation of Current / Non-Current assets and liabilities as separate classifications in the balance sheet.
- ASLB 1 requires disclosure of judgments made by management while framing of accounting policies. Also, it requires disclosure of key assumptions about the future and other key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within next financial year.
- ASLB 1 requires classification of expenses to be presented based on nature of expenses.

*Presentation of Financial Statements*

- In respect of reclassification of items, ASLB 1 requires disclosure of nature, amount and reason for reclassification in the notes to financial statements.
- ASLB 1 requires preparation of statement of changes in equity as annexure to the balance sheet which, inter alia, includes reconciliation between opening and closing balance for each component of equity.