Nepal Accounting Standard (NAS) for Micro Entities (MEs) 2018

Accounting Standards Board, Nepal

(Formed by Government of Nepal Under the Nepal Chartered Accountants Act, 1997)

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Introduction to NAS for MEs

A. Many requirements of the Nepal Financial Reporting Standard for Small and Medium Entities (NFRS for SMEs) are complex and may not be relevant to micro entities as they generally only encounter a narrow range of simple transactions.

B. This Standard is simple and intended to be used cost effectively by micro entities that are either required to prepare general purpose financial statements or choose to do so.

C. Section 1 of NFRS for SMEs defines Micro Entities and the same definition shall be applicable in this Standard. The definition of Micro Entities is as below:

Those NOT having public accountability and other than SMEs are Micro Entities - Micro Entities are required to prepare financial statements in accordance with the Nepal Accounting Standards for Micro Entities (NAS for MEs) on consistent basis.

What are the *Micro Entities*?

a) *Micro entities* are those entities with the following thresholds (all):

(i) Annual Turnover (Revenue of Entity) of NRs 100 million or less;

(ii) Borrowings from banks or financial institutions or public funds or from entities holding assets in fiduciary capacity of NRs 50 million or less;

(iii) Statement of Financial Position (Balance Sheet) total of NRs 100 million (without off-setting current liabilities in current assets) or less; and

(iv) Holding assets in fiduciary capacity of NRs 50 million or less (includes security brokers handling demat account, micro finance and cooperatives.

An entity must meet all of these limits in 2 consecutive years to qualify as a micro-entity and once qualified, must exceed at least 1 of these limits for 2 consecutive years to cease to qualify.

b) *Micro Entities* are not specifically required to follow *NFRS* or *NFRS for SMEs* but can prepare financial statements in accordance with the **Nepal Accounting Standard for Micro Entities (NAS for MEs)** on consistent basis.

D. If an entity applies this Standard, the basis of preparation note and audit report can refer to conformity with the *NAS for MEs*. If an entity opting to follow this Standard also opts to follow any specific standard(s) of *NFRS* or *NFRS for SMEs* in full or any part thereof, the same should be disclosed in the financial statements.

Section 1: Intended Scope of this Standard

This Standard is intended for use by micro entities which is defined in Section 1 of NFRS for SMEs (i.e., that does not have public accountability and that publishes general purpose financial statements in accordance with the NFRS for SMEs).

Section 2: Concepts and Pervasive Principles

Objective of financial statements of a micro entity applying the NAS for MEs

2.1 The objective of financial statements of a micro entity applying the NAS for MEs is to provide information about the financial position, performance and cash flows of the entity that is useful for economic decision-making by a broad range of users who are not in a position to demand reports tailored to meet their particular information needs.

Financial position

2.2 The financial position of an entity is the relationship of its assets, liabilities and equity as of a specific date. These are defined as follows:

(a) an asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity;

(b) a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits; and

(c) equity is the residual interest in the assets of the entity after deducting all its liabilities.

Performance

2.3 Performance is the relationship of the income and expenses of an entity during a reporting period. Income and expenses are defined as follows:

(a) income is increases in economic benefits during the reporting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity investors; and

(b) expenses are decreases in economic benefits during the reporting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity investors.

Cash flows

2.4 Cash flow information shows how an entity generates and uses cash and cash equivalents. Entities need cash to conduct their operations, to pay their obligations, to make investments in income-producing assets, and to provide returns to their investors. Information about the performance of an entity shows the income, expenses, and profit or loss of the entity on an accrual basis. However, the actual inflows and outflows of cash from an entity's operations generally differ – often significantly – from its income and expenses on an accrual basis. Moreover, reporting performance on an accrual basis gives no insight into the cash used by an entity in its investing activities or the cash generated by the entity through its financing activities.

2.5 Cash flows are classified as cash flows from operating, investing and financing activities. Classification by activity provides information on how those activities affect the financial position of the entity (including its liquidity and solvency) and the amount of its cash and cash equivalents.

Recognition of assets, liabilities, income and expenses

2.6 An item shall be recognized (i.e., incorporated in the financial statements) if it meets the definition of an asset, liability, income or expense and satisfies the following criteria:

(a) it is probable (i.e. more likely than not) that any future economic benefit associated with the item will flow to or from the entity; and

(b) the item has a cost or value that can be measured reliably.

Accrual basis

2.7 An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. On the accrual basis, items are recognized as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items.

Offsetting

2.8 An entity shall not offset assets and liabilities, or income and expenses, unless required or permitted by this Standard.

Section 3: Financial Statement Presentation

Fair presentation

3.1 Financial statements shall present fairly the financial position, financial performance and cash flows of an entity.

Compliance with NAS for MEs

3.2 An entity that meets the requirements of this Standard and whose financial statements comply with this Standard shall make a statement of compliance with NAS for MEs in the notes to the financial statements.

Going concern

3.3 The principles of financial reporting in this Standard are intended for an entity that is a going concern. An entity is a going concern unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date.

Frequency of reporting

3.4 An entity shall present a complete set of financial statements (including comparative information) at least annually. When the end of an entity's reporting period changes and the annual financial statements are presented for a period longer or shorter than one year, the entity shall disclose the following:

(a) that fact;

(b) the reason for using a longer or shorter period; and

(c) the fact that comparative amounts presented in the financial statements (including the related notes) are not entirely comparable.

Consistency of presentation

3.5 An entity shall retain the presentation and classification of items in the financial statements from one period to the next unless 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.

Comparative information

3.6 Except when this Standard permits or requires otherwise, an entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

Materiality and aggregation

3.7 Information is material if its omission or misstatement could, individually or collectively, influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size and nature of the item or error judged in the particular circumstances of its omission or misstatement.

3.8 An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial.

Complete set of financial statements

3.9 A complete set of financial statements of an entity shall include all of the following:

(a) a statement of financial position (sometimes called the balance sheet) as at the reporting date.

(b) a statement of income for the reporting period

(c) a statement of changes in equity for the reporting period.

(d) a statement of cash flows for the reporting period.

(e) notes, comprising a summary of significant accounting policies and other explanatory information.

Identification of the financial statements

3.10 An entity shall clearly identify each of the financial statements and the notes and distinguish them from other information in the same document. In addition, an entity shall display the following information prominently, and repeat it when necessary for an understanding of the information presented:

(a) the name of the reporting entity and any change in its name since the end of the preceding reporting period;

(b) the fact that the financial statements cover an individual entity [this Standard does not cover consolidated financial statements]

(c) the date of the end of the reporting period and the period covered by the financial statements;

(d) the currency in which the financial statements are presented; and

(e) the level of rounding, if any, used in presenting amounts in the financial statements.

3.11 An entity shall disclose the following in the notes:

(a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office); and

(b) a description of the nature of the entity's operations and its principal activities.

Section 4: Statement of Financial Position

4.1 The statement of financial position presents the entity's assets, liabilities and equity as of a specific date - the end of the reporting period.

Current/non-current distinction

4.2 An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position.

4.3 An entity shall classify an asset as current when:

(a) it expects to realize the asset, or intends to sell or consume it, in the entity's normal operating cycle;

(b) it holds the asset primarily for the purpose of trading;

(c) it expects to realise the asset within twelve months after the reporting date; or

(d) the asset is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date

4.4 An entity shall classify all other assets as non-current. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

4.5 An entity shall classify a liability as current when:

(a) it expects to settle the liability in the entity's normal operating cycle;

(b) it holds the liability primarily for the purpose of trading;

(c) the liability 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.

4.6 An entity shall classify all other liabilities as non-current.

Sequencing of items and format of items in the statement of financial position

4.7 The Standard does not prescribe the sequence or format in which items are to be presented.

4.8 An entity shall disclose, either in the statement of financial position or in the notes, the following sub classifications of the line items presented:

(a) property, plant and equipment in classifications appropriate to the entity;

(b) trade and other receivables showing separately amounts due from related parties, amounts due from other parties, and receivables arising from accrued income not yet billed;

(c) inventories, showing separately amounts of inventories:

(i) held for sale in the ordinary course of business (for example, inventories held by retailers and the finished goods of a manufacturer);

(ii) in the process of production for such sale (for example, the work in progress of a manufacturer);

(iii) in the form of materials or supplies to be consumed in the production process or of services (for example, raw materials); and

(d) trade and other payables, showing separately amounts payable to trade suppliers, payable to related parties, deferred income and accruals;

(e) provisions for employee benefits and other provisions; and

(f) classes of equity, such as paid-in capital, share premium, and retained earnings.

4.9 An entity with share capital shall disclose the following, either in the statement of financial position or in the notes:

(a) for each class of share capital:

(i) the number of shares authorized;

(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 period;

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital; and

(vi) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts.

(b) a description of each reserve within equity.

4.10 An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by above paragraph, showing changes during the period in each category of equity, and the rights, preferences and restrictions attaching to each category of equity.

Section 5: Statement of Income

5.1 This statement shall present items of income and expense recognized in determining profit or loss of the reporting period.

As a minimum, an entity shall include, in the statement of income, line items that present the following amounts for the period:

(a) revenue;

(b) employee benefits

(c) finance costs;

(d) tax expense

(e) profit or loss

5.2 An entity shall not present or describe any items of income and expense as 'extraordinary items' in the statement of income or in the notes.

5.3 An entity shall present an analysis of expenses using a classification based on the nature of expenses. Under this method of classification, expenses are aggregated in the statement of income according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity.

Section 6: Statement of Changes in Equity

6.1 The statement of changes in equity presents an entity's profit or loss for a reporting period, the effects of changes in accounting policies and corrections of errors recognized in the period and the amounts of investments by, and dividends and other distributions to, owners in their capacity as owners during the period.

Information to be presented in the statement of changes in equity

6.2 The statement of changes in equity includes the following information:

(a) profit or loss for the period,

(b) for each component of equity, the effects of retrospective application or retrospective restatement recognized in accordance with Section 9 Accounting Policies, Estimates and Errors; and

(c) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:

(i) profit or loss; and

(ii) the amounts of investments by, and dividends and other distributions to, owners in their capacity as owners, showing separately issues of shares, dividends and other distributions to owners.

Section 7: Statement of Cash Flows

7.1 A statement of cash flows shall present cash flows for a reporting period classified by operating activities, investing activities and financing activities.

Cash equivalents

7.2 Cash is cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments held to meet short-term cash commitments rather than for investment or other purposes. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents.

Operating activities

7.3 Operating activities are the principal revenue-producing activities of the entity. Therefore, cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

(a) cash receipts from the sale of goods and the rendering of services;

(b) cash payments to suppliers for goods and services;

(c) cash payments to and on behalf of employees; and

(d) cash payments or refunds of income tax, unless they can be specifically identified with financing and investing activities.

Some transactions, such as the sale of an item of plant by a manufacturing entity, may give rise to a gain or loss that is included in profit or loss. However, the cash flows relating to such transactions are cash flows from investing activities.

7.4 An entity shall present cash flows from operating activities using the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows;

Investing activities

7.5 Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities

7.6 Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of an entity.

Reporting cash flows from investing and financing activities

7.7 An entity shall present separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities.

Interest and dividends

7.8 An entity shall present separately cash flows from interest and dividends received. The entity shall classify cash flows consistently from period to period as operating activities.

7.9 An entity may classify interest paid and interest and dividends received as operating cash flows because they are included in profit or loss.

7.10 An entity may classify dividends paid as a financing cash flow because they are a cost of obtaining financial resources.

Income tax

7.11 An entity shall present separately cash flows arising from income tax and shall classify them as cash flows from operating activities unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the entity shall disclose the total amount of taxes paid.

Components of cash and cash equivalents

7.12 An entity shall present the components of cash and cash equivalents and shall present a reconciliation of the amounts presented in the statement of cash flows to the equivalent items presented in the statement of financial position. However, an entity is not required to present this reconciliation if the amount of cash and cash equivalents presented in the statement of cash flows is identical to the amount similarly described in the statement of financial position.

Section 8: Notes to the Financial Statements

8.1 The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used;

(b) disclose the information required by this that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

8.2 Additional disclosures may be necessary in the notes if management feels that compliance with the specific requirements in this standard is insufficient to enable users to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance.

8.3 An entity shall, as far as practicable, present the notes in a systematic manner. An entity shall cross-reference each item in the financial statements to any related information in the notes.

8.4 An entity normally presents the notes in the following order:

(a) a statement that the financial statements have been prepared in compliance with the NAS for MEs;

(b) a summary of significant accounting policies applied;

(c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and

(d) any other disclosures.

Section 9: Accounting Policies, Estimates and Errors

Selection and application of accounting policies

9.1 Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions.

9.2 An entity need not follow a requirement in this Standard if the effect of doing so would not be material.

Changes in accounting policies

9.3 An entity shall change an accounting policy only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. Therefore, changes in accounting policies are generally rare.

9.4 The application of a new accounting policy for transactions, other events or conditions that did not occur previously or were not material is not a change in accounting policy.

Applying changes in accounting policies

9.5 An entity shall account for changes in an accounting policy retrospectively.

9.6 When it is impracticable to determine the individual-period effects of a change in accounting policy on comparative information for one or more prior periods presented, the entity shall apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected component of equity for that period.

Changes in accounting estimates

9.7 A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.

9.8 Examples of changes in accounting estimate include:

(a) a change in the method of depreciating an item of property, plant and equipment from a reducing balance method to a straight line method to reflect a revised assessment of the pattern of consumption of benefits of the asset; and

(b) the re-estimate of useful life of an item of property, plant and equipment.

9.9 An entity shall recognize the effect of a change in an accounting estimate prospectively by including it in profit or loss in:

(a) the period of the change, if the change affects that period only; or

(b) the period of the change and future periods, if the change affects both.

9.10 To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, the entity shall recognize it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Corrections of prior period errors

9.11 Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorized for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

9.12 Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

9.13 To the extent practicable, an entity shall correct a material prior period error retrospectively (i.e. restating the financial statements as if that error had never occurred) in the first financial statements authorized for issue after its discovery by:

(a) Restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

9.14 When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented (i.e. the entity cannot determine it after making every reasonable effort to do so), the entity shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).

Disclosures

Disclosure of a change in accounting policy

9.15 When a change in accounting policy has an effect on the current period or any prior period, an entity shall disclose the following:

(a) the nature of the change in accounting policy;

(b) the reasons why applying the new accounting policy provides reliable and more relevant information;

(c) to the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:

(ii) for the current period;

(ii) for each prior period presented; and

(iii) in the aggregate for periods before those presented; and

(d) an explanation if it is impracticable to determine the amounts to be disclosed in (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

Disclosure of a change in estimate

9.16 An entity shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the entity to estimate the effect of the change in one or more future periods, the entity shall disclose those estimates.

Disclosure of prior period errors

9.17 An entity shall disclose the following about prior period errors:

(a) the nature of the prior period error;

(b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;

(c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and

(d) explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c) above.

Financial statements of subsequent periods need not repeat these disclosures.

Section 10: Financial Instruments

Scope

10.1 A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

10.2 This section provides guidance for accounting of basic financial instruments. Examples of basic financial instruments are:

(a) cash;

(b) bank deposits;

(c) trade and other receivables;

(d) trade and other payables; and

(e) investment in shares.

10.3 All other financial instruments are outside the scope of this Section. Some examples of other financial instruments are:

(a) options, rights, warrants, futures contracts, forward contracts and interest rate swaps that can be settled in cash or by exchanging another financial instrument;

(b) asset backed securities;

(c) commitment to make a loan to another entity; and

(d) commitments to receive a loan if the commitment can be net settled in cash.

Initial recognition of financial assets and liabilities

10.4 An entity shall recognize a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement

10.5 When a financial asset or financial liability is recognized initially, an entity shall measure it at the transaction price (including transaction costs).

Subsequent measurement

10.6 At the end of each reporting period, an entity shall measure financial instruments as follows, without any deduction for transaction costs the entity may incur on sale or other disposal:

(a) investment in shares of the listed companies held for trading shall be measured at market price. The gain or loss resulting therefrom shall be recognized in profit or loss for the reporting period.

(b) investment in shares of the listed companies that are available for sale shall be measured at the lower of cost or market price. The impairment, if any, resulting therefrom shall be recognized in profit or loss for the reporting period.

(c) all other basic financial instruments shall be measured at amortized cost.

Impairment of financial assets measured at cost or amortized cost

Recognition

10.7 At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortized cost. If there is objective evidence of impairment, the entity shall recognize an impairment loss in profit or loss immediately.

10.8 Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the entity about the following loss events:

(a) a breach of contract by the debtor, such as a default or delinquency in interest or principal payments;

(b) the entity, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the entity would not otherwise consider; or

(c) significant financial difficulty of the debtor or it has become probable that the debtor will enter bankruptcy or other financial reorganization.

(d) Production and administration overhead

(e) Selling costs.

(f) Interest costs

10.9 An entity shall assess financial assets that are individually significant for impairment separately. An entity shall assess other financial assets for impairment either individually or grouped on the basis of similar credit risk characteristics.

Measurement

10.10 An entity shall measure an impairment loss on financial assets measured at cost or amortized cost as the difference between the asset's carrying amount and the recoverable value of the asset.

Reversal

10.11 If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the entity shall reverse the previously recognized impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what the carrying amount would have been had the impairment not previously been recognized. The entity shall recognize the amount of the reversal in profit or loss immediately.

Derecognition of a financial asset

10.12 An entity shall derecognize a financial asset when:

(a) the contractual rights to the cash flows from the financial asset expire or are settled; or

(b) the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

Derecognition of a financial liability

10.13 An entity shall derecognize a financial liability (or a part of a financial liability) only when it is extinguished – i.e., when the obligation specified in the contract is discharged, is cancelled or expires.

10.14 The entity shall recognize in profit or loss any difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed.

Disclosures

Disclosure of accounting policies for financial instruments

10.15 An entity shall disclose, in the summary of significant accounting policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the financial statements.

Statement of financial position - categories of financial assets and financial liabilities

10.16 An entity shall disclose the carrying amounts of each of the basic financial assets and financial liabilities at the reporting date, in total, either in the statement of financial position or in the notes:

10.17 For investments in listed shares, the entity shall disclose the quoted market price in an active market.

Items of income, expense, gains or losses

10.18 An entity shall disclose the following items of income, expense, gains or losses:

(a) income, expense, gains or losses, recognized on:

(i) investments in shares;

(ii) financial assets measured at cost/amortized cost; and

(iii) financial liabilities measured at cost/amortized cost;

(b) total interest income and total interest expense for financial assets or financial liabilities measured at cost/amortized cost; and

(c) the amount of any impairment loss for each class of financial asset.

Section 11: Inventories

Scope

11.1 Inventories are assets:

(a) held for sale in the ordinary course of business;

(b) in the process of production for such sale; or

(c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

11.2 This section does not apply to:

(a) work in progress arising under construction contracts, including directly related service contracts (see Section 16: Revenue); and

(b) financial instruments (see Section 10: Financial Instruments).

Measurement of inventories

11.3 An entity shall measure inventories at the lower of cost and estimated selling price less costs to complete and sell. A reduction in carrying value of inventories is recognized in the statement of income as impairment of inventories. Section 19: Impairment of Assets covers impairment requirements for inventories.

Cost of inventories

11.4 An entity shall include in the cost of inventories all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase

11.5 The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Costs of conversion

11.6 The costs of conversion of inventories include costs directly related to the units of production, such as direct material and direct labour.

Joint products and by-products

11.7 A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of raw materials or conversion of each product are not separately identifiable, an entity shall allocate them between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, the entity shall measure them at selling price less costs to complete and sell and deduct this amount from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.

Costs excluded from inventories

11.8 Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

(a) abnormal amounts of wasted materials, labour or other production costs;

(b) storage costs, unless those costs are necessary during the production process before a further production stage;

(c) production and administration overhead;

(d) selling costs; and

(e) interest costs.

Cost of inventories of a service provider

11.9 To the extent that service providers have inventories, they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel. Labour and other costs relating to sales and general administrative personnel are not included but are recognized as expenses in the period in which they are incurred. The cost of inventories of a service provider does not include profit margins or overheads that are often factored into prices charged by service providers.

Techniques for measuring cost, such as standard costing, retail method and most recent purchase price

11.10 An entity may use techniques such as the standard cost method, the retail method or most recent purchase price for measuring the cost of inventories if the result approximates cost. Standard costs take into account normal levels of materials and supplies, labour, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions. The retail method measures cost by reducing the sales value of the inventory by the appropriate percentage gross margin.

Cost formulas

11.11 An entity shall measure the cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects by using specific identification of their individual costs.

11.12 An entity shall measure the cost of inventories, other than those dealt with in paragraph 11.11, by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. The last-in, first-out method (LIFO) is not permitted.

Recognition as an expense

11.13 When inventories are sold, the entity shall recognize the carrying amount of those inventories as an expense (often referred to as cost of goods sold) in the period in which the related revenue is recognized.

11.14 Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are accounted for subsequently in accordance with the section of this Standard relevant to that type of asset

Disclosures

11.15 An entity shall disclose the following:

(a) the accounting policies adopted in measuring inventories, including the cost formula used;

(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;

(c) the amount of inventories recognized as an expense during the period;

(d) impairment losses recognized or reversed in the statement of income; and

(e) the total carrying amount of inventories pledged as security for liabilities.

Section 12: Property, Plant and Equipment (PPE)

Scope

12.1 Property, plant and equipment accounted for under this section are tangible assets that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one period.

Recognition

12.2 Items such as spare parts, stand-by equipment and servicing equipment are property, plant and equipment if the entity expects to use them during more than one period or if they can be used only in connection with an item of property, plant and equipment. Otherwise, such items are classified as inventories.

12.3 Land and buildings are separable assets, and an entity shall account for them separately, even when they are acquired together.

Measurement at recognition

12.4 An entity shall measure an item of property, plant and equipment at initial recognition at its cost.

Elements of cost

12.5 The cost of an item of property, plant and equipment comprises all of the following:

(a) its purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These can include the costs of site preparation, initial delivery and handling, installation and assembly, and testing of functionality.

12.6 The following costs are not costs of an item of property, plant and equipment, and an entity shall recognize them as an expense when they are incurred:

(a) costs of opening a new facility;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training);

(d) administration and other general overhead costs; and

(e) borrowing costs.

12.7 The income and related expenses of incidental operations during construction or development of an item of property, plant and equipment are recognized in profit or loss if those operations are not necessary to bring the item to its intended location and operating condition.

Measurement after initial recognition

12.8 An entity shall measure all items of property, plant and equipment after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciable amount and depreciation period

12.9 An entity shall allocate the depreciable amount of an asset on a systematic basis over its useful life. The depreciable amount is cost minus accumulated depreciation and accumulated impairment losses, and minus residual value.

12.10 The depreciation charge for each period shall be recognized in the statement of income.

12.11 Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognized. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

12.12 The useful life of an asset is the period over which the asset is expected to be available for use by the entity or the number of production or similar units expected to be obtained from the asset by the entity. An entity shall consider all of the following factors in determining the useful life of an asset:

(a) the expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output;

(b) expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle;

(c) technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

Depreciation method

12.13 An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method.

12.14 Usually, an asset is depreciated using the same method from period to period. However, if there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an entity expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern.

Derecognition

12.15 An entity shall derecognize an item of property, plant and equipment:

(a) on disposal; or

(b) when no future economic benefits are expected from its use or disposal.

12.16 An entity shall recognize the gain or loss on the derecognition of an item of property, plant and equipment in the statement of income when the item is derecognized. The entity shall not classify such gains as revenue.

Disclosures

12.17 An entity shall disclose the following for each class of property, plant and equipment:

(a) the measurement bases used for determining the gross carrying amount;

(b) the depreciation methods used;

(c) the useful lives or the depreciation rates used;

(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the reporting period; and

(e) a reconciliation of the carrying amount at the beginning and the end of the reporting period showing separately:

(i) additions;

(ii) disposals;

(iii) impairment losses recognized or reversed in statement of income; and

(iv) depreciation.

This reconciliation need not be presented for prior periods.

12.18 The entity shall also disclose the following:

(a) The existence and carrying amounts of property, plant and equipment to which the entity has restricted title or that is pledged as security for liabilities; and

(b) The amount of contractual commitments for the acquisition of property, plant and equipment.

Section 13: Leases

Scope

13.1 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. Generally micro entities are not involved with finance lease and this standard provides guidance on recognition, measurement and disclosures for operating leases.

Classification of leases

13.2 A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Recognition and measurement

Financial statements of lessees

13.3 A lessee shall recognize lease payments under operating leases (excluding costs for services such as insurance and maintenance) as an expense on a straight-line basis unless the payments to the lessor are structured to increase in line with expected general inflation (based on published indexes or statistics) to compensate for the lessor's expected inflationary cost increases.

Financial statements of Lessors

13.4 A lessor shall present assets subject to leases in its statement of financial position according to the nature of the asset.

13.5 A lessor shall recognize lease income in the statement of income on a straight-line basis over the lease term, unless the payments to the lessor are structured to increase in line with expected general inflation to compensate for the lessor's expected inflationary cost increases.

13.6 A lessor shall recognize as an expense costs, including depreciation, incurred in earning the lease income.

Disclosures

13.7 A lessee/lessor, as applicable shall make the following disclosures for operating leases:

(a) lease payments recognized as an expense/income as applicable; and

(b) a general description of the significant leasing arrangements including, for example, information about renewal or purchase options, subleases, and restrictions imposed by lease arrangements.

Section 14: Provisions and Contingencies

Scope

14.1 This section applies to all provisions (i.e., liabilities of uncertain timing or amount), contingent liabilities and contingent assets except those provisions covered by other sections of this Standard. These include provisions relating to:

(a) leases (Section 13: Leases),

(b) construction contracts (Section 16: Revenue),

(c) employee benefit obligations (Section 20: Employee Benefits) and

(d) income tax (Section 21: Income Tax)

14.2 The word 'provision' is sometimes used in the context of such items as depreciation, impairment of assets, and uncollectible receivables. Those are adjustments of the carrying amounts of assets, rather than recognition of liabilities, and therefore are not covered by this section.

Initial recognition

14.3 An entity shall recognize a provision only when:

(a) the entity has an obligation at the reporting date as a result of a past event;

(b) it is probable (i.e., more likely than not) that the entity will be required to transfer economic benefits in settlement; and

(c) the amount of the obligation can be estimated reliably.

14.4 The entity shall recognize the provision as a liability in the statement of financial position and shall recognize the amount of the provision as an expense, unless another section of this Standard requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment.

14.5 An entity shall not recognize a provision for future operating losses. Expected future losses do not meet the definition of a liability. The expectation of future operating losses may be an indicator that one or more assets are impaired.

Initial measurement

14.6 An entity shall measure a provision at the best estimate of the amount required to settle the obligation at the reporting date.

14.7 An entity shall exclude gains from the expected disposal of assets from the measurement of a provision.

14.8 When some or all of the amount required to settle a provision may be reimbursed by another party (for example, through an insurance claim), the entity shall recognize the reimbursement as a separate asset only when it is virtually certain that the entity will receive the reimbursement on settlement of the obligation. The amount recognized for the reimbursement shall not exceed the amount of the provision. The reimbursement receivable shall be presented in the statement of financial position as an asset and shall not be offset against the provision. In the statement of income, the entity may offset any reimbursement from another party against the expense relating to the provision.

Subsequent measurement

14.9 An entity shall charge against a provision only those expenditures for which the provision was originally recognized.

14.10 An entity shall review provisions at each reporting date and adjust them to reflect the current best estimate of the amount that would be required to settle the obligation at that reporting date. Any adjustments to the amounts previously recognized shall be recognized in the statement of income unless the provision was originally recognized as part of the cost of an asset.

Contingent liabilities

14.11 A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognized because it fails to meet one or both of the conditions of provision. An entity shall not recognize a contingent liability as a liability. When an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.

Contingent assets

14.12 A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. An entity shall not recognize a contingent asset as an asset. When the flow of future economic benefits to the entity is virtually certain, then the related asset is not a contingent asset, and its recognition is appropriate.

Disclosures

Disclosures about provisions

14.13 For each class of provision, an entity shall disclose all of the following:

(a) A reconciliation showing:

(i) the carrying amount at the beginning and end of the period;

(ii) additions during the period, including adjustments that result from changes in measuring the discounted amount;

(iii) amounts charged against the provision during the period; and

(iv) unused amounts reversed during the period.

(b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments;

(c) an indication of the uncertainties about the amount or timing of those outflows; and

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

Comparative information for prior periods is not required.

Disclosures about contingent liabilities

14.14 Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:

(a) An estimate of its financial effect, measured;

(b) An indication of the uncertainties relating to the amount or timing of any outflow; and

(c) The possibility of any reimbursement.

If after making every reasonable effort to do so, an entity cannot make one or more of these disclosures, that fact shall be stated.

Disclosures about contingent assets

14.15 If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period, and, when practicable without undue cost or effort, an estimate of their financial effect, measured. If after making every reasonable effort to do so, an entity cannot make this disclosure, that fact shall be stated.

Section 15: Equity

Classification

15.1 Equity is the residual interest in the assets of an entity after deducting all its liabilities. Equity includes investments by the owners of the entity, plus additions to those investments earned through profitable operations and retained for use in the entity's operations, minus reductions to owners' investments as a result of unprofitable operations and distributions to owners.

15.2 Members' shares in co-operative entities and similar instruments are equity if:

(a) the co-operative entity has an unconditional right to refuse redemption of the members' shares; or

(b) redemption is unconditionally prohibited by local law, regulation or the entity's governing charter.

Original issue of shares or other equity instruments

15.3 An entity shall recognize the issue of shares or other equity instruments as equity when it issues those instruments and when another party is obliged to provide cash or other resources to the entity in exchange for the instruments:

(a) if the equity instruments are issued before the entity receives the cash or other resources, the entity shall present the amount receivable as an offset to equity in its statement of financial position, not as an asset.

(b) if the entity receives the cash or other resources before the equity instruments are issued, and the entity cannot be required to repay the cash or other resources received, the entity shall recognize the corresponding increase in equity to the extent of consideration received.

To the extent that the equity instruments have been subscribed for but not issued, and the entity has not yet received the cash or other resources, the entity shall not recognize an increase in equity.

15.4 An entity shall measure the equity instruments at the amount of cash received. If the equity instruments are exchanged for resources other than cash, the equity instruments shall be recognized at the value of those resources.

15.5 How the increase in equity arising on the issue of shares or other equity instruments is presented in the statement of financial position is determined by applicable laws. For example, the par value (or other nominal value) of shares and the amount paid in excess of par value may be required to be presented separately.

Distributions to owners

15.6 An entity shall reduce equity for the amount of distributions to its owners (holders of its equity instruments), net of any related income tax benefits.

15.7 Sometimes an entity distributes assets other than cash as dividends to its owners. When an entity declares such a distribution and has an obligation to distribute non-cash assets to its owners, it shall recognize a liability. It shall measure the liability at the value of the assets to be distributed.

Section 16: Revenue

Scope

16.1 Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. This Section shall be applied in accounting for revenue arising from the following transactions and events:

(a) the sale of goods (whether produced by the entity for the purpose of sale or purchased for resale);

(b) the rendering of services;

(c) construction contracts in which the entity is the contractor. A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use; and

(d) deposits or receivables yielding interest.

Measurement of revenue

16.2 An entity shall measure revenue at the value of the consideration received or receivable. The value of the consideration received or receivable is after deducting the amount of any trade discounts, prompt settlement discounts and volume rebates allowed by the entity.

16.3 An entity shall include in revenue only the gross inflows of economic benefits received and receivable by the entity on its own account. An entity shall exclude from revenue all amounts collected on behalf of third parties, for example sales taxes, goods and services taxes and value added taxes collected on behalf of a government. In an agency relationship, an entity shall include in revenue only the amount of its commission. The amounts collected on behalf of the principal are not revenue of the entity.

Sale of goods

16.4 An entity shall recognize revenue from the sale of goods when all the following conditions are satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable (i.e. more likely than not) that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

For a straightforward sale of goods for cash or on credit, revenue is generally recognized on the date when the goods are delivered to the customer.

Rendering of services

16.5 When the outcome of a transaction involving the rendering of services can be estimated reliably, an entity shall recognize revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the reporting period (sometimes referred to as the percentage of completion method). The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) the amount of revenue can be measured reliably;

(b) it is probable that the economic benefits associated with the transaction will flow to the entity;

(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and

(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

16.6 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, an entity shall recognize revenue only to the extent of the expenses recognized that are recoverable.

Construction contracts

16.7 When the outcome of a construction contract can be estimated reliably, an entity shall recognize contract revenue and contract costs associated with the construction contract as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period.

Percentage of completion method

16.8 This method is used to recognize revenue from rendering services and from construction contracts. An entity shall review and, when necessary, revise the estimates of revenue and costs as the service transaction or construction contract progresses.

16.9 An entity shall determine the stage of completion of a transaction or contract using the method that measures most reliably the work performed. Possible methods include:

(a) the proportion that costs incurred for work performed to date bear to the estimated total costs. Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments;

(b) surveys of work performed; and

(c) completion of a physical proportion of the service transaction or contract work.

Progress payments and advances received from customers often do not reflect the work performed.

16.10 An entity shall recognize as an expense immediately any costs whose recovery is not probable.

16.11 When the outcome of a construction contract cannot be estimated reliably:

(a) an entity shall recognize revenue only to the extent of contract costs incurred that it is probable will be recoverable; and

(b) the entity shall recognize contract costs as an expense in the period in which they are incurred.

16.12 When it is probable that total contract costs will exceed total contract revenue on a construction contract, the expected loss shall be recognized as an expense immediately, with a corresponding provision for an onerous contract.

16.13 If the collectability of an amount already recognized as contract revenue is no longer probable, the entity shall recognize the uncollectible amount as an expense rather than as an adjustment of the amount of contract revenue.

Interest

16.14 Interest shall be recognized using the effective interest method.

Disclosures

General disclosures about revenue

16.15 An entity shall disclose:

(a) the accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services; and

(b) the amount of each category of revenue recognized during the period, showing separately, at a minimum, revenue arising from:

(i) the sale of goods;

(ii) the rendering of services;

(iii) interest;

(iv) commissions; and

(v) any other significant types of revenue.

Disclosures relating to revenue from construction contracts

16.16 An entity shall disclose the following:

(a) the amount of contract revenue recognized as revenue in the period;

(b) the methods used to determine the contract revenue recognized in the period; and

(c) the methods used to determine the stage of completion of contracts in progress.

16.17 An entity shall present:

(a) the gross amount due from customers for contract work, as an asset; and

(b) the gross amount due to customers for contract work, as a liability.

Section 17: Government Grants

Scope

17.1 A government grant is assistance by a government in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the operating activities of the entity. Government grants exclude those forms of government assistance that cannot reasonably have a value placed upon them and transactions with a government that cannot be distinguished from the normal trading transactions of the entity.

17.2 This section does not cover government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates.

Recognition and measurement

17.3 An entity shall recognize government grants as follows:

(a) a grant that does not impose specified future performance conditions on the recipient is recognized as income when the grant proceeds are receivable.

(b) a grant that imposes specified future performance conditions on the recipient is recognized as income only when the performance conditions are met.

(c) a grant that is provided to incur an expense is recognized as income in the periods in which the expense is recognized in statement of income.

(d) a grant that is provided to acquire an asset is recognized in a systematic basis over the useful life of the asset.

(e) grants received before the revenue recognition criteria are satisfied are recognized in the statement of financial position as deferred income.

17.4 An entity shall measure grants at the value of the asset received or receivable.

Disclosure

17.5 An entity shall disclose the following about government grants:

(a) the nature and amounts of government grants recognized in the financial statements;

(b) unfulfilled conditions and other contingencies attaching to government grants that have not been recognized in income; and

(c) an indication of other forms of government assistance from which the entity has directly benefited.

Section 18: Borrowing Costs

Scope

18.1 Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.

Recognition

18.2 An entity shall recognize all borrowing costs as an expense in the statement of income in the period in which they are incurred.

Disclosure

18.3 An entity shall disclose total interest expense recognized during the reporting period.

Section 19: Impairment of Assets

Scope

19.1 An impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount. This Section shall be applied in accounting for the impairment of all assets except financial assets dealt in Section 10 and assets arising from employee benefits dealt in Section 20.

Impairment of inventories

Selling price less costs to complete and sell

19.2 An entity shall assess at each reporting date whether any inventories are impaired. The entity shall make the assessment by comparing the carrying amount of each item of inventory with its selling price less costs to complete and sell.

Reversal of impairment

19.3 An entity shall make a new assessment of selling price less costs to complete and sell at each subsequent reporting date. When the circumstances that previously caused inventories to be impaired no longer exist, or when there is clear evidence of an increase in selling price less costs to complete and sell because of changed economic circumstances, the entity shall reverse the amount of the impairment (i.e. the reversal is limited to the amount of the original impairment loss) so that the new carrying amount is the lower of the cost and the revised selling price less costs to complete and sell.

Impairment of assets other than inventories

General principles

19.4 If, and only if, the recoverable amount of an asset is less than its carrying amount, the entity shall reduce the carrying amount of the asset to its recoverable amount. That reduction is an impairment loss.

19.5 An entity shall recognize an impairment loss immediately in the statement of income.

Indicators of impairment

19.6 An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. If there is no indication of impairment, it is not necessary to estimate the recoverable amount.

19.7 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

(a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

(b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

(c) The carrying amount of the net assets of the entity is more than the estimated value of the entity as a whole (such an estimate may have been made, for example, in relation to the potential sale of part or all of the entity).

Internal sources of information

(a) Evidence is available of obsolescence or physical damage of an asset.

(b) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, and plans to dispose of an asset before the previously expected date.

(c) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. In this context economic performance includes operating results and cash flows.

19.8 If there is an indication that an asset may be impaired, this may indicate that the entity should review the remaining useful life, the depreciation method or the residual value for the asset and adjust it in accordance with the Section of this Standard applicable to the asset even if no impairment loss is recognized for the asset.

Disclosures

19.9 An entity shall disclose separately for inventories and for property, plant and equipment the amount of impairment losses recognized in profit or loss during the period and the line item(s) in the statement of income in which those impairment losses are included.

Section 20: Employee Benefits

General recognition principle for all employee benefits

20.1 Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management. An entity shall recognize the cost of all employee benefits to which its employees have become entitled as a result of service rendered to the entity during the reporting period:

(a) As a liability, after deducting amounts that have been paid either directly to the employees or as a contribution to an employee benefit fund. If the amount paid exceeds the obligation arising from service before the reporting date, an entity shall recognize that excess as an asset to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(b) As an expense, unless another section of this Standard requires the cost to be recognized as part of the cost of an asset such as inventories or property, plant and equipment.

In other words, employee benefits are recognized when the employee earns those benefits, not when those benefits are paid in cash.

Specific employee benefits

20.2 When an employee has rendered service to an entity, the entity shall measure the amounts recognized in statement of income as follows:

(a) benefits payable within a short period of time before or after the period of service, such as wages, salaries, contributions to provident funds or trust funds, medical insurance premiums, and use of vehicle or residence, in the reporting period in which service is rendered;

(b) bonus and profit sharing payments, in the reporting period in which service is rendered;

(c) medical benefits not covered by insurance, in the reporting period in which employee claims the benefit; and

(d) cost incurred for casual, annual or medical leave, in the reporting period in which leave is taken.

20.3 Benefits payable on retirement, such as contributory fund shall be measured and recognized as expenses at the amount that needs to be contributed (whether or not actually contributed; i.e. on accrual basis) by the entity during the reporting period.

20.4 Benefits payable on retirement, such as gratuity shall be measured and recognized as a liability at the amount that would be payable at the end of the reporting period, if the employees leave on that date. Employees who have not completed the minimum period of service to be entitled to the retirement benefit at the end of the reporting period are not considered in the measurement of the liability.

20.5 Benefits payable as a result of an entity's decision to terminate an employee's employment before the normal retirement date, are recognized in the reporting period in which the decision is communicated to the employee.

20.6 Benefits payable as a result of an employee's decision to accept voluntary redundancy in exchange for those benefits, are recognized in the statement of income in the reporting period in which the employee accepts the same.

Section 21: Income Tax

Scope

21.1 Income tax includes all domestic and foreign taxes that are based on taxable profit (i.e. the tax is based on a measure of taxable revenue minus deductible expenses established by local legislation)

Recognition and Measurement

21.2 An entity shall recognize the amounts payable as tax on its profits for the reporting period as expense based on the amounts payable computed in accordance with the relevant statutes. The corresponding liability shall be presented as current liability whereas advance tax paid as per relevant status shall be presented as current assets.

Withholding tax on dividends

21.3 When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of the shareholders. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends.

Section 22: Foreign Currency Translation

Functional currency

22.1 Each entity shall identify its functional currency. An entity's functional currency is the currency of the primary economic environment in which the entity operates.

Reporting foreign currency transactions in the functional currency

Initial recognition

22.2 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

(a) buys or sells goods or services whose price is denominated in a foreign currency;

(b) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

(c) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

22.3 An entity shall record a foreign currency transaction, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

22.4 The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this standard. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example; an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period.

Reporting at the end of subsequent reporting periods

22.5 At the end of each reporting period, an entity shall:

(a) translate foreign currency monetary items using the closing rate; and

(b) translate non-monetary items in a foreign currency using the exchange rate at the date of the transaction.

22.6 An entity shall recognize, in statement of income in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods.

Use of a presentation currency

22.7 An entity may present its financial statements in a currency different from the one in which it recognizes and measures transactions. In that case, the entity shall translate its items of income and expense and financial position into the presentation currency

22.8 An entity shall translate its items of income, expense, assets and liabilities into a different presentation currency using the following procedures:

(a) assets and liabilities for each statement of financial position presented shall be translated at the closing rate at the date of that statement of financial positions;

(b) income and expenses for each statement of income statement shall be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences shall be recognized in the statement of income as an item which is not recognized in determining profit or loss of the reporting period, but recognized in determining the retained earnings carried forward.

22.9 For practical reasons, an entity may use a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, to translate income and expense items.

Section 23: Events after the End of the Reporting Period

Events after the end of the reporting period defined

23.1 Events after the end of the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

Recognition and measurement

Adjusting events after the end of the reporting period

23.2 An entity shall adjust the amounts recognized in its financial statements, or recognize items that were not previously recognized, including related disclosures, to reflect adjusting events after the end of the reporting period. Adjusting events after the end of the reporting period are those events that provide evidence of conditions that existed at the end of the period.

23.3 Examples include:

(a) the receipt of information after the end of the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted. For example:

(i) the bankruptcy of a customer that occurs after the end of the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and

(ii) the sale of inventories after the end of the reporting period may give evidence about their selling price at the end of the reporting period for the purpose of assessing impairment at that date.

(b) the determination after the end of the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

Non-adjusting events after the end of the reporting period

23.4 An entity shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the end of the reporting period. Non-adjusting events after the end of the reporting period are those events that are indicative of conditions that arose after the end of the reporting period.

23.5 An example of a non-adjusting event after the end of the reporting period is a loss caused by flood, fire, or other event that occurred after the end of the reporting period.

Dividends

23.6 If an entity declares dividends to holders of its equity instruments after the end of the reporting period, the entity shall not recognize those dividends as a liability at the end of the reporting period. The amount of the dividend may be presented as a segregated component of retained earnings at the end of the reporting period.

Disclosure

Date of authorisation for issue

23.7 An entity shall disclose the date when the financial statements were authorized for issue and who gave that authorization. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.

Section 24: Related Party Disclosures

Purpose of related party disclosures

24.1 Disclosures about an entity's related parties are necessary in the entity's financial statements to draw attention to the possibility that its financial position and statement of income may have been affected by the existence of related parties and by transactions and outstanding balances with those parties. The definition of a related party is set out below. There are no specific measurement requirements for related party transactions.

24.2 A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. Examples of related party transactions that a micro-entity may encounter include, but are not limited to:

(a) Transactions between the entity and its principal owner(s);

(b) Transactions between the entity and another entity when both entities are under the common control of a single entity or person; and

(c) Transactions in which an entity or person that controls the reporting entity incurs expenses directly that otherwise would have been borne by the reporting entity.

Related party defined

24.3 A related party is a person or entity that is related to the entity that is preparing its financial statements (the reporting entity).

(a) a person or a close member of that person's family is related to a reporting entity if that person:

(i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;

(ii) has control over the reporting entity; or

(iii) has joint control or significant influence over the reporting entity or has significant voting power in it.

(b) an entity is related to a reporting entity if any of the following conditions applies:

(i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) either entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of a third entity;

(iv) either entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant voting power in the entity;

(viii) a person identified in (a)(ii) has significant influence over the entity or significant voting power in it;

(ix) a person or a close member of that person's family has both significant influence over the entity or significant voting power in it and joint control over the reporting entity; or

(x) a member of the key management personnel of the entity or of a parent of the entity, or a close member of that member's family, has control or joint control over the reporting entity or has significant voting power in it.

24.4 The following are not necessarily related parties:

(a) two entities simply because they have a director or other member of key management personnel in common;

(b) providers of finance by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process); and

(c) a customer, or supplier with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

Disclosures

Disclosure of parent-subsidiary relationships

24.5 Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been related party transactions. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so (if any) shall also be disclosed.

Disclosure of key management personnel compensation

24.6 An entity shall disclose key management personnel compensation in total.

Disclosure of related party transactions

24.7 If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. Those disclosure requirements are in addition to the requirements to disclose key management personnel compensation. At a minimum, disclosures shall include:

(a) the amount of the transactions;

(b) the amount of outstanding balances;

(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

(ii) details of any guarantees given or received;

(c) provisions for uncollectible receivables related to the amount of outstanding balances; and

(d) the expense recognized during the period in respect of bad or doubtful debts due from related parties.

Such transactions could include purchases, sales, or transfers of goods or services; leases; guarantees; and settlements by the entity on behalf of the related party or vice versa.

24.8 An entity shall make the disclosures separately for each of the following categories:

(a) Entities with control, joint control or significant influence over the entity;

(b) Key management personnel of the entity or its parent (in the aggregate); and

(c) Other related parties.

24.9 An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.

Section 25: Transition to the NAS for MEs

Scope

25.1 This section applies to a first-time adopter of the NAS for MEs regardless of whether its previous accounting framework was full NFRSs or another set of generally accepted accounting principles (GAAP) such as income tax basis.

25.2 An entity can be a first-time adopter of the NAS for MEs only once. If an entity using the NAS for MEs stops using it for one or more reporting periods and then is required, or chooses, to adopt it again later, the special exemptions, simplifications and other requirements in this standard do not apply to the re-adoption.

First-time adoption

25.3 A first-time adopter of the NAS for MEs shall apply this section in its first financial statements that conform to the NAS for MEs.

25.4 An entity's first financial statements that conform to the NAS for MEs are the first annual financial statements in which the entity makes an explicit and unreserved statement in those financial statements of compliance with the NAS for MEs. Financial statements prepared in accordance with this Standard are an entity's first such financial statements if, for example, the entity:

(a) did not present financial statements for previous periods;

(b) presented its most recent previous financial statements under national requirements that are not consistent with the NAS for MEs in all respects; or

(c) presented its most recent previous financial statements in conformity with full NFRSs or NFRS for SMEs.

25.4 An entity's date of transition to the NAS for MEs when using this Standard for that transition is the beginning of the earliest period for which the entity presents full comparative information in accordance with the NAS for MEs in its first financial statements that conform to the NAS for MEs.

Procedures for preparing financial statements at the date of transition

25.5 An entity shall, in its opening statement of financial position as of its date of transition to the NAS for MEs:

(a) recognize all assets and liabilities whose recognition is required by the NAS for MEs;

(b) not recognize items as assets or liabilities if the NAS for MEs does not permit such recognition;

(c) reclassify items that it recognized under its previous financial reporting framework as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under the NAS for MEs; and

(d) apply the NAS for MEs in measuring all recognized assets and liabilities.

25.6 The accounting policies that an entity uses in its opening statement of financial position under the NAS for MEs may differ from those that it used for the same date using its previous financial reporting framework. The resulting adjustments arise from transactions, other events or conditions before the date of transition to the NAS for MEs. Therefore, an entity shall recognize those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to the NAS for MEs.

25.7 If it is impracticable for an entity to restate the opening statement of financial position at the date of transition for one or more of the adjustments required (i.e. the entity cannot restate after making every reasonable effort to do so), the entity shall apply this clause for such adjustments in the earliest period for which it is practicable to do so.

Disclosures

25.8 If it is impracticable for an entity to restate the opening statement of financial position at the date of transition for one or more of the adjustments required by paragraph, the entity shall disclose which amounts in the financial statements are affected. If it is impracticable for an entity to provide any disclosures required by this Standard, including for comparative periods, the omission shall be disclosed.

Explanation of transition to the NAS for MEs

25.9 An entity shall explain how the transition from its previous financial reporting framework to the NAS for MEs affected its reported financial position, financial performance and cash flows.

Reconciliations

25.10 An entity's first financial statements prepared using the NAS for MEs shall include:

(a) a description of the nature of each change in accounting policy;

(b) reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with the NAS for MEs for both of the following dates:

(i) the date of transition to the NAS for MEs;

(ii) the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework; and

(c) a reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with the NAS for MEs for the same period

25.11 If an entity becomes aware of errors made under its previous financial reporting framework, the reconciliations shall, to the extent practicable, distinguish the correction of those errors from changes in accounting policies.

25.12 If an entity did not present financial statements for previous periods, it shall disclose that fact in its first financial statements that conform to the NAS for MEs.

Model Financial Statements for MEs
(Based on NAS for MEs)

Model Financial Statements for MEs (Based on NAS for MEs)

Background:

Management of the MEs is responsible for the preparation of the Financial Statements and for such internal control as management determines is necessary to enable the preparation of the Financial Statements that are free from material misstatement, whether due to fraud or error. Because of the size and paucity of the resources in the MEs the Model Financial Statements are annexed in the Standard so that it will be easier to prepare the financial statements to MEs and the Financial Statements prepared by MEs can be easily understood by users familiar with general purpose financial statements.

The financial reporting of MEs is required to meet the information needs of the stakeholders; therefore these Model Financial Statements give the typical format of the Financial Statements of MEs in a common minimum basis in the following section.

Statement of Financial Position

As at ...... Ashadh 20XX (..... July 20XX)

Figures in NPR

Particulars	Notes	20X2	20X1
Assets			
Non-Current Assets			
Property, Plant and Equipment	3.1	XXXX	XXXX
Investments	3.2	XXXX	XXXX
Other Receivables	3.3	XXXX	XXXX
Total Non-Current Assets		**XXXXX**	**XXXXX**
Current Assets			
Investments	3.2	XXXX	XXXX
Inventories	3.4	XXXX	XXXX
Trade and other receivables	3.3	XXXX	XXXX
Cash and cash equivalents	3.5	XXXX	XXXX
Total Current Assets		**XXXXX**	**XXXXX**
Total Assets		**XXXXX**	**XXXXX**
Equity			
Share Capital	3.6	XXXX	XXXX
Reserves	3.7	XXXX	XXXX
Total Equity		**XXXXX**	**XXXXX**
Liabilities		XXXX	XXXX
Non-Current Liabilities			
Loans and Borrowings	3.8	XXXX	XXXX
Liabilities for Employee Benefits	3.9	XXXX	XXXX
Provisions		XXXX	XXXX
Total Non-Current Liabilities		**XXXXX**	**XXXXX**
Current Liabilities			
Loans and borrowings	3.8	XXXX	XXXX
Trade and other payables	3.10	XXXX	XXXX
Income Tax Liability		XXXX	XXXX
Employee Benefits	3.9	XXXX	XXXX
Provisions		XXXX	XXXX
Total Current Liabilities		**XXXXX**	**XXXXX**
Total Liabilities		**XXXXX**	**XXXXX**
Total Equity and Liabilities		**XXXXX**	**XXXXX**

Statement of Income

For the Year Ended ...... Ashadh 20XX (..... July 20XX)

Figures in NPR

Particulars	Notes	20X2	20X1
Revenue from operations	3.11	XXXX	XXXX
Interest Income		XXXX	XXXX
Other Income		XXXX	XXXX
Total Income		**XXXXX**	**XXXXX**
Material consumed expenses	3.12		
Employee benefit expenses	3.13	(XXXX)	(XXXX)
Interest expenses		(XXXX)	(XXXX)
Depreciation expenses			
Other Expenses	3.14	(XXXX)	(XXXX)
Total expenses		**XXXXX**	**XXXXX**
Profit Before Tax		**XXXXX**	**XXXXX**
Income Tax Expense	3.15	XXXX	XXXX
Net Profit for the year		**XXXXX**	**XXXXX**

Statement of Changes in Equity

For the Year Ended ...... Ashadh 20XX (..... July 20XX)

Figures in NPR

Particulars	Notes	Share Capital	Share Premium	Retained Earnings	Other Reserves	Total
Balance at Shrawan 20X1		XXXX	XXXX	XXXX	XXXX	**XXXXX**
Change in Accounting Policies		-	-	-	-	**-**
Restated Balance at 01 Shrawan 20X1		XXXX	XXXX	XXXX	XXXX	**XXXXX**
Profit for the year		-	-	XXXX		**XXXXX**
Issue of Share Capital		XXXX	XXXX			**XXXXX**
Dividends to shareholders		-	-		(XXXX)	**(XXXXX)**
Other changes				(XXXX)	XXXX	
Balance at .... Ashadh 20X2		**XXXXX**	**XXXXX**	**XXXXX**	**XXXXX**	**XXXXX**

Statement of Cash Flows

(Indirect Method)

For the Year Ended ...... Ashadh 20XX (..... July 20XX)

Figures in NPR

Cash Flows from Operating Activities	20X2	20X1
Profit for the Year	**XXXXX**	**XXXXX**
Adjustment for:		
Depreciation/Impairment on Property, Plant and Equipment	XXXX	XXXX
Interest Income	(XXXX)	(XXXX)
Interest Expense	XXXX	XXXX
Loss/(gain) on sale of Property, plant and equipment	XXXX	XXXX
Income Tax Expense charged to profit or loss statement	XXXX	XXXX
Increase/Decrease in Trade and other receivables	(XXXX)	(XXXX)
Increase/Decrease in Inventories	(XXXX)	(XXXX)
Increase/Decrease in Trade and other payables	(XXXX)	(XXXX)
Increase/Decrease in Provisions	XXXX	XXXX
Increase/Decrease in other Liabilities	-	-
Cash generated from Operations.	**XXXXX**	**XXXXX**
Interest Paid	-	-
Income Tax Paid	(XXXX)	(XXXX)
Net Cash Flows from Operating Activities	**XXXXX**	**XXXXX**
Cash Flow from Investing Activities		
Proceeds from sale of PPE, Investments/Financial Assets	XXXX	XXXX
Interest/Dividend Received	XXXX	XXXX
Acquisition of Property, plant and Equipment	(XXXX)	(XXXX)
Net Cash flows from Investing Activities	**(XXXXX)**	**(XXXXX)**
Cash Flow from Financing Activities		
Proceeds from the issue of Equity and Preference share	XXXX	-
Proceeds from other non- current borrowings	XXXX	XXXX
Repayment of Borrowings	(XXXX)	(XXXX)
Dividend paid	(XXXX)	(XXXX)
Net Cash Flows from Financing Activities	**(XXXXX)**	**XXXXX**
Net Increase in Cash and Cash Equivalents	**XXXXX**	**XXXXX**
Cash and Cash Equivalents at the beginning.....20X1	**XXXXX**	**XXXXX**
Exchanges (losses)/gains on cash and cash equivalents	**(XXXXX)**	**XXXXX**
Cash and Cash Equivalents at the end.....20X2	**XXXXX**	**XXXXX**

Significant Accounting Policies and Notes to Accounts

1. General Information

(Give brief information about the legal status, registered address and nature of the business of the company)

The financial statements were authorized for issue by ... on ....

2. Significant Accounting Policies

2.1 Basis of preparation

2.1.1 Statement of Compliance

The financial statements have been prepared in accordance with Nepal Accounting Standard for Micro Entities (NAS for MEs).

2.1.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis except Investments held-for-trade is measured at fair value.

2.1.3 Critical Accounting Estimates

The preparation of the financial statements in conformity with Nepal Accounting Standard for Micro Entities (NAS for MEs) requires the use of certain critical accounting estimates and judgments. The company makes certain estimates and assumptions regarding the future events. In the future, actual result may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are to be disclosed.

2.1.4 Functional and Presentation Currency

The financial statements are prepared in Nepalese Rupees, which is the company's functional currency. All the financial information presented in Nepalese Rupees has been rounded to the nearest rupee, except otherwise indicated.

2.2 Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.2.1 Impairment of non- financial assets (excluding inventories)

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, the asset is written down accordingly.

Impairment charges are included in profit or loss.

2.2.2 Foreign currency

Transactions entered into by company entities in a currency other than the currency of the primary economic environment in which they operate (the "functional currency" is NPR) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss.

2.2.3 Property, plant and equipment

Items of property, plant and equipment are initially recognized at cost. Cost includes the purchase price and other directly attributable costs. Subsequently, items of property, plant and equipment are measured at cost less depreciation less impairment.

2.2.4 Depreciation

Freehold land is not depreciated. Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation is provided on all other items of property, plant and equipment so as to write-off their carrying value over the expected useful economic lives.

Depreciation has been computed on SLM/ WDV Method.

2.2.5 Leased Assets

When all the risks and rewards incidental to ownership are not transferred to the company (an “operating lease"), the total rentals payable under the lease are charged to the statement of income over the lease term.

2.2.6 Investments

Investments in listed shares

Investments in listed shares held for trading are classified as current assets and are stated at quoted market price as at the date of the statement of financial position with any resultant gain or loss recognized in the statement of income.

Other investments

Other investments are initially measured at cost and subsequently at lower of cost or market price. The provision for impairment is recognized in the statement of income.

2.2.7 Trade and other receivables

Trade and other receivables are stated at their cost less provision for impairment. The amount of the provision is recognized in the income statement.

2.2.8 Inventories

Inventories are initially recognized at cost, and subsequently at the lower of cost and net realisable value.

The cost is determined on first-in first-out (FIFO) method or weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition. In the case of manufactured inventories and work-in-progress, cost includes direct material and labour cost and it does not include overheads which is charged to the statement of income in the period in which it is incurred.

2.2.9 **Cash and cash equivalents**

Cash and cash equivalents comprises cash balances, call deposits and other short term highly liquid investments. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included within borrowings in current liabilities on the balance sheet.

2.2.10 **Share capital**

Financial instruments issued by the company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The company's equity shares are classified as equity instruments.

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary at the option of the company. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders and dividends thereon is recognized in the income statement as interest expense.

2.2.11 **Borrowing costs**

Interest-bearing borrowings are recognized initially at cost, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost. Borrowing costs are charged to the income statement in the period in which it is incurred.

2.2.12 **Retirement Benefits**

Defined contribution schemes

Benefits payable on contribution scheme is measured and recognized as expenses at the amount that needs to be contributed (whether or not actually contributed; i.e. on accrual basis) by the company during the reporting period.

Defined benefit schemes

Benefits payable for defined benefit scheme is measured and recognized as a liability at the amount that would be payable at the end of the reporting period, if the employees leave on that date. Employees who have not completed the minimum period of service to be entitled to the retirement benefit at the end of the reporting period are not considered in the measurement of the liability.

_2.2.13_ Taxation

Income tax is the expected tax payable on the taxable income for the year using tax rates at the balance sheet date and any adjustment to tax payable in respect of previous years.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

_2.2.14_ Government grants / Deferred Revenue

Government grants received for capital expenditure are generally deducted in arriving at the carrying amount of the asset purchased. Grants for revenue expenditure are netted against the cost incurred by the company. Where retention of a government grant is dependent on the company satisfying certain criteria, it is initially recognized as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the statement of income or netted against the asset purchased.

_2.2.15_ Trade and other payables

Trade and other payables are stated at their cost.

_2.2.16_ Provisions

The provisions for liabilities of uncertain timing or amount include those for warranty claims, leasehold dilapidations and legal disputes. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

2.2.17 Income

Revenue

Revenue from the sales of goods or services is recognized when the company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the company will receive the previously agreed upon payment.

Interest income

Interest income are recognized in the statement of income using accrual method.

Dividend income

Dividend income is recognized in the income statement when the right to receive payment is established.

2.2.18 Expenses

Operating lease payments

Payments made under operating leases are recognized in the income statement on a straight -line basis over the term of the lease.

Interest

Interest expense are recognized in the statement of income using accrual method.

3. Other Explanatory Notes

3.1 Property, Plant and Equipment

Cost	Land and Building	Plant and Machinery	Furniture and fixture	Office Equip-ment	Under Construc-tion	Total
Balance at Shrawan 20X1	XXXX	XXXX	XXXX	XXXX	-	**XXXXX**
Additions	-	XXXX	XXXX	XXXX	XXXX	**XXXXX**
Disposals	-	(XXXX)	(XXXX)	-	-	**(XXXXX)**
Balance at ….. Ashadh 20X2	XXXX	XXXX	XXXX	XXXX	XXXX	**XXXXX**
Depreciation and Impairment Losses						**-**
Balance at 01 Shrawan 20X1	-	XXXX	XXXX	XXXX	-	**XXXXX**
Depreciation charged for the year	XXXX	XXXX	XXXX	XXXX	-	**XXXXX**
Adjustment due to Impairment Losses	-	XXXX	-	-	-	**XXXXX**
Disposals	-	(XXXX)	(XXXX)	-	-	**(XXXXX)**
Balance at Ashadh 20X2	-	XXXX	XXXX	XXXX	-	**XXXXX**
Carrying Amount						
At Shrawan 20X1	**XXXXX**	**XXXXX**	**XXXXX**	**XXXXX**	**-**	**XXXXX**
At Ashadh 20X2	**XXXXX**	**XXXXX**	**XXXXX**	**XXXXX**	**XXXXX**	**XXXXX**

Security (If any)

Bank borrowings are secured on all property, plant and equipment of NPR....... (20XX: NPR...........)

Property, Plant and Equipment under construction

The net book value of assets under construction includes an amount of NPR XX (20X1: Nil) relating to the new head office, which is currently under construction. The cost of the buildings will be depreciated once the property is complete and available for use. The estimated additional cost to completion of the property, and to which the group is contractually committed is NPRXX (2011: NPR XX).

3.2 Investment

A. In listed shares

NPR

Particulars	20X2	20X1
Balance as at 01 Shrawan	**XXXXX**	**XXXXX**
Additions	XXXX	XXXX
Disposals	(XXXX)	(XXXX)
Balance as at Ashadh	**XXXXX**	**XXXXX**
Gain/(loss) on subsequent measurement at the date of statement of financial position	**XXXXX**	**XXXXX**
Net carrying amount	**XXXXX**	**XXXXX**
Less: non-current portion	**(XXXXX)**	**(XXXXX)**
Current portion	**XXXXX**	**XXXXX**

B. Other investments

Particulars	20X2	20X1
Cost		
Balance as at 01 Shrawan	**XXXXX**	**XXXXX**
Additions	XXXX	XXXX
Disposals	(XXXX)	(XXXX)
Balance as at Ashadh	**XXXXX**	**XXXXX**
Provision for impairment		
Balance as at 01 Shrawan	XXXX	XXXX
Movement during the year	XXXX	XXXX
Balance as at Ashadh	**XXXXX**	**XXXXX**
Net carrying amount	**XXXXX**	**XXXXX**
Less: non-current portion	**(XXXXX)**	**(XXXXX)**
Current portion	**XXXXX**	**XXXXX**

3.3 Trade and Other Receivables

Particulars	20X2	20X1
Trade receivables	XXXX	XXXX
Less: provision for impairment of trade receivables	(XXXX)	(XXXX)
Trade receivables - net	XXXX	XXXX
Receivables from related parties	XXXX	XXXX
Prepayments	XXXX	XXXX
Other receivables	XXXX	XXXX
Total trade and other receivables	**XXXXX**	**XXXXX**
Less: non-current portion	(XXXX)	(XXXX)
Current portion	**XXXXX**	**XXXXX**

Movements on the group provision for impairment of trade receivables are as follows:

Particulars	20X2
Ashadh 20X1	XXXX
Provided during the year	XXXX
Receivable written off during the year as Uncollectible	XXXX
Unused amounts reversed	-
At Ashadh 20X2	**XXXXX**

3.4 Inventories

Particulars	20X2	20X1
Raw materials and consumables	XXXX	XXXX
Work-in-progress	XXXX	XXXX
Finished goods and goods for resale	XXXX	XXXX
Total	**XXXXX**	**XXXXX**

Finished goods include an amount of NPR XX (20X1: NPR XX) carried at fair value less costs to sell.

3.5 Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statement of cash flows comprises:

Particulars	20X2	20X1
Cash available on demand	XXXX	X
Short-term deposits	XXXX	X
Total	**XXXXX**	**XXXXX**

3.6 Share Capital

Authorized	20X2	20X2	20X1	20X1
	Number	NPR	Number	NPR
Ordinary shares of NPR XX each	XXXX	XXXX	XXXX	XXXX
Preference shares of NPR XX each	XXXX	XXXX	XXXX	XXXX
Total	**XXXXX**	**XXXXX**	**XXXXX**	**XXXXX**

Issued and Fully Paid

Types of Shares	20X2	20X2	20X1	20X1
	Number	NPR	Number	NPR
Ordinary shares of NPR XX each	XXXX	XXXX	XXXX	XXXX
At the beginning of the year	XXXX	XXXX	XXXX	XXXX
Issues for cash during the year	XXXX	XXXX	XXXX	XXXX
Total	**XXXXX**	**XXXXX**	**XXXXX**	**XXXXX**

Types of Shares	20X2	20X2	20X1	20X1
	Number	NPR	Number	NPR
Preference shares of NPR XX each	XXXX	XXXX	XXXX	XXXX
At the beginning of the year	XXXX	XXXX	XXXX	XXXX
Issues for cash during the year	XXXX	XXXX	XXXX	XXXX
At the end of the year	**XXXXX**	**XXXXX**	**XXXXX**	**XXXXX**

3.7 Reserves

The reserves to be included within the Equity are share premium, retained earnings and other reserves.

3.8 Loans and Borrowings

The details of value of loans and borrowings are as follows:

Particulars	20X2	20X1
Non-Current		
Bank loans		
Secured	XXXX	XXXX
Unsecured	XXXX	XXXX
Collateralized borrowings	XXXX	XXXX
Redeemable preference shares	XXXX	XXXX
Total	**XXXXX**	**XXXXX**
Current		
Overdrafts	-	XXXX
Bank loans		
Secured	XXXX	XXXX
Unsecured	XXXX	XXXX
Collateralized borrowings	XXXX	XXXX
Convertible debt	XXXX	XXXX
Total	**XXXXX**	**XXXXX**
Total loans and borrowings	**XXXXX**	**XXXXX**

3.9 Liability for Employee Benefits

Particulars	20X2	20X1
Defined benefit schemes	XXXX	XXXX
Defined contribution scheme	XXXX	XXXX
Other employee benefits payable	XXXX	XXXX
Total	**XXXXX**	**XXXXX**
Categorized as:		
-Due within one year or less	XXXX	XXXX
-Due after more than one year	XXXX	XXXX
Total	**XXXXX**	**XXXXX**

3.10 Trade and other payables

Particulars	20X2	20X1
Trade payables	XXXX	XXXX
Other payables	XXXX	XXXX
Accruals	XXXX	XXXX
Tax payable	XXXX	XXXX
Deferred income	XXXX	XXXX
Dividends payable	XXXX	XXXX
Total	**XXXXX**	**XXXXX**

3.11 Revenue from Operations

Particulars	20X2	20X1
Sale of goods	XXXX	XXXX
Rendering of services	XXXX	XXXX
Total	**XXXXX**	**XXXXX**

3.12 Material consumed expenses

	20X2	20X1
Balance on 01 Shrawan	XXXX	XXXX
Purchases during the period	XXXX	XXXX
Less: balance on ... Ashadh	(XXXX)	(XXXX)
Total	**XXXXX**	**XXXXX**

3.13 Employee Benefit expenses

Particulars	20X2	20X1
Wages and salaries	XXXX	XXXX
Short-term non-monetary benefits	XXXX	XXXX
Defined contribution pension cost	XXXX	XXXX
Defined benefit pension cost	XXXX	XXXX
Other long-term employee benefits	XXXX	XXXX
Share-based payment expense	XXXX	XXXX
Other contributions	XXXX	XXXX
Total	**XXXXX**	**XXXXX**

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including the director NPR

Particulars	20X2	20X1
Salary	XXXX	XXXX
Other long-term benefits	XXXX	-
Total pension and other post-employment benefit costs	XXXX	XXXX
Compensations for loss of office	XXXX	XXXX
Share based payment expense	XXXX	XXXX
Total	**XXXXX**	**XXXXX**

3.14 Other Expenses

Particulars	20X2	20X1
Lease Rentals	XXXX	XXXX
Communication Expenses	XXXX	XXXX
Printing, Stationery and Reproduction costs	XXXX	XXXX
Travel and Transportation costs	XXXX	XXXX
Advertisement Expenses	XXXX	XXXX
Audit Fees and Expenses	XXXX	XXXX
Other Professional Fees and Expenses	XXXX	XXXX
Board and AGM Expenses	XXXX	XXXX
Repair and maintenance expenses	XXXX	XXXX
Other	XXXX	XXXX
Total	**XXXXX**	**XXXXX**

3.15 Tax Expenses *(Recognized in the Income Statement)*

Particulars	20X2	20X1
Tax on profits for the year	XXXX	XXXX
Adjustment for under provision in prior periods	XXXX	XXXX
Total	**XXXXX**	**XXXXX**

3.16 Changes in Accounting Policies (If any)

In the current financial year the company changes in accounting policies. This change has been accounted for by restating comparatives and adjusting the opening balance of retained earnings at 01 Shrawan 20XX. The changes in accounting policy, when applied consistently to 20X1 had the following impact: On Opening Retained Earnings: On Net Profit

3.17 Contingencies

The company has contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.

3.18 Related Party Transactions

Identity of related parties

The company is controlled by (name of the parent company) which owns xx percent of the company's shares. The remaining xx percent shares are widely held. The ultimate parent company of the company is (name of the ultimate parent company) incorporated in (name of the country).

The following transactions were carried out with related parties (Give details):

Directors of the company and their immediate relatives control xx percent of the voting shares of the company. Loans to directors amounting to NRs xx (20XX: NRs xx) are included in "other receivables". No interest is payable by the directors (or disclose if interest is payable)

In addition to their salaries, the company also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf.

During the year ended .....Ashadh 20X2 associates purchased goods from the Group in the amount of

NRs xx (20XX: NRs xx) and at.... Ashadh 20XX associates owed the company NRs xx (20XX: NRs xx). Transactions with associates are priced on an arm's length basis. During the year ended.... Ashadh

20XX the company repaid a loan of NRs xx received from one of its associates. No dividends were received from associates in 20XX or in 20XX.

3.19 Current/Non Current Assets and Liabilities

Current Assets are expected to be realized within the normal operating cycle of the entity or within twelve months after the reporting period or are intended for sale or consumption within the normal operating cycle of the entity or are held primarily for the purpose of trading or are cash and cash equivalents. All other assets are classified as Non-current Assets.

Current Liabilities are expected to be settled in the entity's normal operating cycle or are primarily held for trading or are due to be settled within a period of twelve months after the reporting period. All other liabilities are classified as non- current liabilities.

3.20 Prior Period Errors

Prior Period Errors are omissions or misstatements in an entity's financial statements. Such omissions may relate to one or more prior periods. Correction of an error is done by calculating the cumulative effect of the change on the financial statements of the period as if new method or estimate had always been used for all the affected prior years' financial statements. Sometimes such changes may not be practicable, in such cases it is applied to the latest period possible by making corresponding adjustment to the opening balance of the period.

Appendix A

Effective Date and Transition

This Standard shall be operative for the Financial Statements covering the period beginning on or after July 16, 2020. Earlier application is permitted. If an entity applies this Standard for a period beginning before July 16, 2020, it shall disclose that fact.