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Guidance Note on Accounting for Self-generated Certified Emission Reductions (CERs)

Foreword

At present, rise in global temperatures is a major concern all over the world. The speed of warming has been almost three times the century long average since 1970. The main cause of the rise in global surface temperature is the human-induced emissions of Green House Gases (GHG's) into the environment. To address the issue of global warming caused by various gases, the concept of emission rights was brought out in the well known Kyoto Protocol. As per the Kyoto Protocol, at present, developing and least-developed countries are not bound by the amount of GHG emissions that they can release in the atmosphere, though they too generate GHG emissions. India, being a developing country, has emerged to be a beneficiary as Indian entities can set up Clean Development Projects which reduce GHG emissions and thereby generate Certified Emission Reductions (CERs) which can be sold to developed countries and used by the latter to meet their binding emission reductions.

The recent times have witnessed a rise in the number of transactions involving carbon trading. With India being an important partner in such transactions, the Accounting Standards Board of Institute of Chartered Accountants of India (ICAI) has formulated this Guidance Note on Accounting for Self-generated Certified Emission Reductions (CERs) to provide guidance on the accounting issues involved in such transactions, as the carbon trading market is expected to grow in the years to come.

I would like to congratulate CA. Manoj Fadnis, Chairman, Accounting Standards Board, and other members of the Accounting Standards Board who have made invaluable contribution in the formulation of this Guidance Note.

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I hope that this endeavour of the Accounting Standards Board will go a long way in establishing sound principles on accounting for CERs and provide guidance to the members as well as to others concerned.

New Delhi
February 11, 2012

CA. G. Ramaswamy
President

Preface

Greenhouse gases are necessary to life as they keep the earth's surface warmer than it otherwise would be. But, as the concentrations of these gases continue to increase in the atmosphere, the Earth's temperature is climbing above past levels. To limit concentration of Green House Gases (GHGs) in the atmosphere for addressing the problem of global warming, United Nation Framework Convention on Climate Change (UNFCCC) was adopted in 1992. Kyoto Protocol came in force in February 2005 which sets limits to the maximum amount of emission of GHGs by countries. Presently, the Kyoto Protocol commits 41 developed countries to reduce their GHG emissions. The developing and least-developed countries are not bound by amount of GHG emissions that they can release in the atmosphere.

Large number of entities in India are generating carbon credits. Carbon credits being a relatively new area, a need was felt to provide accounting guidance in this area. Keeping this in view the Accounting Standards Board has formulated this Guidance Note on Accounting for Self-generated Certified Emission Reductions (CERs).

This Guidance Note provides guidance on accounting for carbon credits. Kyoto Protocol provides three market-based mechanisms – Joint Implementation (JI), Clean Development Mechanism (CDM), and International Emission Trading (IET). The only mechanism relevant in Indian context is Clean Development Mechanism (CDM) under which CERs are granted. The Guidance Note lays down the guidance on matters of applying accounting principles relating to recognition, measurement and disclosures of CERs generated by the entity under the Clean Development Mechanism.

I would like to convey my sincere thanks to our Honourable President CA. G. Ramaswamy and Vice-President CA. Jaydeep N. Shah for providing guidance and able leadership in the affairs connected with the Board.

I would like to take this opportunity to place on record my deep appreciation of the efforts put in by CA. S. Santhanakrishnan, Vice-Chairman, Accounting Standards Board and CA. S. A. Murali Prasad who made immense contribution in the preparation of this Guidance Note. I would also like to thank various representatives of the industry, our members and other individuals for giving their invaluable suggestions on the draft Guidance Note from time to time.

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I am also thankful to Dr. Avinash Chander, Technical Director, CA. Geetanshu Bansal, Senior Executive Officer of the Institute of Chartered Accountants of India, for the untiring efforts made by them in finalising the Guidance Note.

New Delhi
February 11, 2012

CA. Manoj Fadnis
Chairman
Accounting Standards Board

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Guidance Note on Accounting for Self-generated Certified Emission Reductions (CERs)

(The following is the text of the Guidance Note on Accounting for Self-generated Certified Emission Reductions (CERs), issued by the Council of the Institute of Chartered Accountants of India.)

Introduction

1. One challenge facing the human race is that of global warming. To address the issue of global warming, the United Nations Framework Convention on Climate Change (UNFCCC) was adopted in 1992, with the objective of limiting the concentration of Green House Gases (GHGs¹) in the atmosphere. Subsequently, to supplement the Convention, the Kyoto Protocol came into force in February 2005, which sets limits to the maximum amount of emission of GHGs by countries. The Kyoto Protocol at present commits 41 developed countries (known as Annex I countries) to reduce their GHG emissions by at least 5% below their 1990 baseline emission by the commitment period of 2008-2012. As per the Kyoto Protocol, at present, developing and least-developed countries are not bound by the amount of GHG emissions that they can release in the atmosphere, though they too generate GHG emissions.

2. Under the Kyoto Protocol, countries with binding emission reduction targets (which at present are applicable to developed countries) in order to meet the assigned reduction targets are issued allowances (carbon credits) equal to the amount of emissions allowed. An allowance (carbon credit) represents an allowance to emit one metric tonne of carbon dioxide equivalent. To meet the emission reduction targets, binding countries in turn set limits on the GHG emissions by their local businesses and entities. Further, in order to enable the developed countries to meet their emission reduction targets, Kyoto Protocol provides three market-based mechanisms – Joint Implementation

¹ GHGs refer to polluting gases including carbon dioxide which cause global warming.

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(JI), Clean Development Mechanism (CDM), and International Emission Trading (IET).

3. Under JI, a developed country with a relatively high cost of domestic GHG reduction can set up a project in another developed country that has a relatively low cost and earn carbon credits that may be applied to their emission targets. Under CDM, a developed country can take up a GHG reduction project activity in a developing country where the cost of GHG reduction is usually much lower and the developed country would be given carbon credits for meeting its emission reduction targets. Examples of projects include reforestation schemes and investment in clean technologies. In case of CDM, entities in developing/least developed countries can set up a GHG reduction project, get it approved by UNFCCC and earn carbon credits. Such carbon credits generated can be bought by entities of developed countries with emission reduction targets. The unit associated with CDM is Certified Emission Reduction (CER) where one CER is equal to one metric tonne of carbon dioxide equivalent. Under IET, developed countries with emission reduction targets can simply trade in the international carbon credit market. This implies that entities of developed countries exceeding their emission limits can buy carbon credits from those whose actual emissions are below their set limits. Carbon credits can be exchanged between businesses/entities or bought and sold in international market at the prevailing market price.

4. These mechanisms serve the objective of both the developed countries with emission reduction targets, who are the buyers of carbon credits as well as of the developing and least developed countries with no emission targets (at present), who are the sellers/suppliers of carbon credits. The non-polluting companies from less developed countries can sell the quantity of carbon dioxide emissions they have reduced (carbon credits) and earn extra money in the process. This mechanism of buying and selling carbon credits is known as carbon trading.

Clean Development Mechanism and CERs

5. The Clean Development Mechanism is a flexible mechanism to enable countries with GHG emission reduction commitments, i.e., Annex I countries to meet their commitments by paying for GHG emission reductions in developing countries (non-Annex I countries). Such CDM projects earn saleable Certified Emission Reduction (CER) units, each equal to one metric tonne of carbon dioxide equivalent, which can be counted towards meeting Kyoto targets (given

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in Annexure B of Kyoto Protocol). This mechanism encourages the non-Annex I countries, i.e., developing and least developed countries which at present are not bound by Kyoto Protocol to reduce GHG emissions. India, being a non-Annex I country, has emerged to be a beneficiary as Indian entities can set up CDM projects which reduce GHG emissions and thereby generate CERs which can be sold to Annex I countries and used by the latter to meet their binding emission reductions.

6. To be eligible for CDM benefits, the proposed project must have the feature of additionality, i.e., the CDM project must provide reductions in emissions that are additional to that would occur in the absence of the project. For example, an entity can generate CERs under CDM, if it installs a waste heat boiler that saves energy. This is because reduced fuel use reduces the amount of carbon dioxide emitted. However, if an entity has to undertake the project activity because of law, for example, if the industry is legally mandated to have a waste-heat recovery boiler, such a project is generally not eligible for CDM benefits.

7. An entity desirous of undertaking a CDM project activity, generate carbon credits there from, and earn revenue needs to go through several stages. These are described below:

(i) Registration/Accreditation of the project

As a first step, an entity desirous of setting up a CDM project needs to get the project registered with the CDM Executive Board of the UNFCCC. To do so, it needs to develop a Project Design Document (PDD) which contains the description of the proposed CDM project. The entity also needs an approval from the Designated National Authority (DNA) which is an office, ministry or other official entity appointed by a Party to the Kyoto Protocol to review and give national approval to projects proposed under the CDM. India's DNA is the National CDM Authority (NCDMA). Once approved by the DNA, the proposed project is required to be validated by a Designated Operational Entity (DOE). A DOE is a company/organisation accredited by the CDM Executive Board that checks whether the project meets the CDM criteria. The DOE checks the PDD and hosts the same on UNFCCC's website for public comments for a period of 30 days. Upon the expiry of this period, the DOE makes a determination as to whether on the basis of the information provided and taking into consideration the comments received, the project should be validated. Once satisfied, the DOE

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submits the validation report and all the other necessary documents to the CDM Executive Board along with the request for project registration, and all these documents are hosted on UNFCCC's website. If within 8 weeks no request for review of the proposed CDM project is received by UNFCCC, the project is automatically registered.

(ii) Monitoring, Verification and Issuance of CERs

Once the project is registered and becomes operational, the performance of the CDM project is monitored and verified periodically (usually once a year) to determine whether emission reductions have taken place before the CDM Executive Board can issue CERs. For this, the entity having got itself successfully registered appoints a DOE which is different from the one involved in the first stage. The DOE assesses the quality/quantity of GHG emission reductions and compliance with all CDM criteria. After successful verification, the DOE submits the verification report and other relevant documents to the Executive Board and requests for issuance of CERs. UNFCCC hosts all these documents on its website and if within 15 days from the date of making the request for issuance no request for review is received, CERs are certified and issued to the entity. Certification is a written assurance by UNFCCC that a project activity achieved the emission reductions as verified.

(iii) Sale/Trade

The CERs obtained by the entity may be sold to those who need it.

8. From the above, it follows that there are various parties involved in the carbon trading process. These include (i) Generating entity/generator, i.e., the entity which undertakes CDM project activity to generate CERs; (ii) CDM Executive Board of UNFCCC which approves the CDM projects and issues CERs; (iii) Designated National Authority as defined above and in India it refers to National CDM Authority; (iv) Designated Operational Entities as defined above which validate and verify the CDM project and its operations; and (v) the buying entity/buyer which buys the CERs generated by the generator and for the purpose of this Guidance Note it refers to the entity of a developed country which is bound by the Kyoto Protocol emission reduction targets.

Objective

9. With large number of entities in India generating carbon credits and the carbon credits being a relatively new area, a need was felt to provide guidance on accounting in this area. There is no specific Accounting Standard or interpretation provided by the International Accounting Standard Board (IASB) in relation to the accounting for Certified Emissions Reductions (CERs). The debate is still on for an appropriate treatment for Carbon Emission Reductions (CERs) in the international forum.

There are, however, existing Accounting Standards (AS) that deal with the principles that should govern accounting for Certified Emissions Reductions (CERs). But the lack of specific guidance furthers the scope for judgement and results in varying treatments.

Scope

10. Kyoto Protocol provides three market-based mechanisms – Joint Implementation (JI), Clean Development Mechanism (CDM), and International Emission Trading (IET). The accounting issues and the consequent accounting treatment involved in the three different mechanisms may be different. However, since at present the Clean Development Mechanism is the relevant mechanism in India and with India currently not being under the obligation to reduce its GHG emissions as per the Kyoto Protocol, this Guidance Note provides guidance on accounting for carbon credits, i.e., CERs generated under the Clean Development Mechanism. This Guidance Note provides guidance on matters of applying accounting principles relating to recognition, measurement and disclosures of CERs generated by the entity that has obtained the same under the Clean Development Mechanism (hereinafter referred to as 'self-generated CERs').

This Guidance Note does not address the accounting issues involved in carbon credits under Joint Implementation and International Emission Trading the other two mechanisms under the Kyoto Protocol.

This Guidance Note also does not deal with purchased CERs or with the use of CERs in own business.

Accounting Treatment

Whether CER is an 'asset'

11. An issue that arises in accounting for carbon credits is that whether the carbon credits generated under the Clean Development Mechanism, i.e., CERs, can be considered as assets of the generating entity.

12. The 'Framework for the Preparation and Presentation of Financial Statements', issued by the Institute of Chartered Accountants of India, defines an 'asset' as follows:

"An *asset* is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise."

CER is an 'asset' as per the definition given in the Framework

13. From the above-mentioned definition of 'asset' it follows that for a CER to be considered as an asset of the generating entity, it should be a resource controlled by the generating entity arising as a result of past events, and from which future economic benefits are expected to flow to the generating entity.

14. In order to generate CERs, an entity undertakes a CDM project activity and thereby reduces carbon emissions. It is mentioned in paragraph 9 above that various stages are involved in a CDM project activity to generate CERs. After a successful registration, as the CDM project is operated, carbon emission reductions are generated and these continue to be generated over the course of the project. However, at this stage, i.e., when the emission reductions are taking place, CERs do not arise. It may be argued that as soon as emission reductions take place these should be considered as assets since certification thereof subsequently in the form of CERs is a procedural aspect. In this regard, it is noted that issuance of CERs is subject to the verification process, i.e., CERs are applied for and on the expiry of 15 days having received no request for review and after having satisfied all requirements, a communication is received from UNFCCC thereby crediting CERs to the generating entity. It is, thus, possible that emission reductions may not eventually result in to creation of CERs. Accordingly, at this stage when emission reductions are taking place, CERs can, at best, be said to be contingent assets as per Accounting Standard (AS) 29, *Provisions, Contingent Liabilities and Contingent Assets*, which defines

a contingent asset as “**a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise**”. This is because when the generating entity reduces carbon emissions by way of a CDM project, the generating entity becomes eligible to receive CERs from UNFCCC. However, whether CERs will actually arise and be received by the generating entity or not will depend on a future uncertain event, i.e., certification of the same by UNFCCC.

15. It follows from the above that a CER comes into existence and meets the definition of an asset only when the communication of credit of CERs is received by the generating entity. This is because only at this stage the CER becomes a resource controlled by the generating entity and therefore leads to expected future economic benefits in the form of cash and cash equivalents which would arise on the future sale of CERs. As stated above, at other earlier stages of the CDM project activity, there is no resource in existence for the generating entity, and hence the question of ‘resource controlled’ and ‘expected future economic benefits’ therefore do not arise. Accordingly, CER is an ‘asset’, when it comes into existence as stated aforesaid.

Recognition of CERs

16. According to the ‘Framework for the Preparation and Presentation of Financial Statements’, once an item meets the definition of the term ‘asset’, it has to meet the criteria for recognition of an asset as laid down in the Framework so that it may be recognised in the financial statements. In other words, it has to be seen when the CERs should be recognised in the financial statements. As per paragraph 88 of the Framework, the criteria for recognition of an asset are as follows:

“88. An asset is recognised in the balance sheet when it is probable that the future economic benefits associated with it will flow to the enterprise and the asset has a cost or value that can be measured reliably.”

17. From paragraph 15 it follows that CERs come into existence when these are credited by UNFCCC in a manner to be unconditionally available to the generating entity. Therefore, CERs should not be recognised before that stage. Further, from the above it follows that for CERs to be recognised in the financial statements of the generating entity as assets, the two criteria with regard to

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probable future economic benefits flowing from the CERs and CERs possessing a cost or value that can be measured with reliability should be met as follows:

- (a) As regards the probability criterion for recognition of CERs, it may be mentioned that the concept of probability refers to the degree of certainty that future economic benefits associated with CERs will flow to the entity. Therefore, the probability criterion is said to be met when there is a reasonable assurance that future economic benefits will flow from the CERs to the entity. As the market for CERs is relatively new, the future economic benefits may not always be assured. Thus, an entity needs to make an assessment for the probability of future economic benefits. Accordingly, if there is a probable market for the self-generated CERs ensuring flow of economic benefits in the future, CERs should be recognised.
- (b) As regards the criterion for measurement of cost or value, there are certain costs which are incurred to generate CERs, and therefore the cost of CERs can be measured reliably. The value at which CERs are to be measured is discussed in later paragraphs.

For reasons stated above, the recognition of CERs as an asset at any earlier or later stage than when they are credited by UNFCCC is not justified in the following cases:

- (a) CERs are recognised upon execution of a firm sale contract for the eligible credits.
- (b) CERs are recognised on an entitlement basis based on reasonable certainty after making adjustments for expected deductions.

What type of asset is a CER

18. Having agreed that a CER is an asset as per the 'Framework for the Preparation and Presentation of Financial Statements' and also having determined when a CER meets the recognition criteria, its nature is to be examined. Keeping in view the non-physical form of CERs, the definition of 'intangible asset', as per Accounting Standard (AS) 26, *Intangible Assets*, is noted as follows:

"An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes."

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19. From the above, it is noted that though CERs are non-monetary assets without a physical form, they do not strictly fall within the meaning of 'intangible asset' as per AS 26. The reason is that CERs are not held for use in the production or supply of goods or services, and neither are CERs used for administrative purposes nor are they used for the purpose of renting to others. Instead, CERs generated by the generating entity are held for the purpose of sale.

However, it may be mentioned that though the definition of 'intangible asset' does not mention assets held for sale, the other requirements of AS 26, such as the following, indicate that intangible assets include assets which are developed by an entity for sale:

“44. An intangible asset arising from development (or from the development phase of an internal project) should be recognised if, and only if, an enterprise can demonstrate all of the following:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;***
- (b) its intention to complete the intangible asset and use or sell it;***
- (c) its ability to use or sell the intangible assets;***
- (d) ...***
- (e) the availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset; and***
- (f) ...” [Emphasis supplied]***

20. Further, though CERs are intangible assets as mentioned above, AS 26² scopes out those intangible assets from its purview which are specifically dealt with in another Accounting Standard and requires them to be accounted for in accordance with that Standard. For instance, intangible assets held for the

² Reference may be made to paragraph 2 of AS 26.

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purpose of sale in the ordinary course of business are excluded from the scope of AS 26 (paragraph 2) and, therefore, are to be accounted for as per Accounting Standard (AS) 2, *Valuation of Inventories*. In this context, the definition of the term 'inventories' as given in AS 2 is noted below:

"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."***

21. From the above, it follows that CERs are inventories of the generating entity as they are generated and held for the purpose of sale in the ordinary course of business. Therefore, even though CERs are intangible assets these should be accounted for as per the requirements of AS 2.

Measurement

Measurement of CERs

22. As stated above, CERs are inventories for an entity which generates the CERs. Therefore, the valuation principles as prescribed in AS 2 should be followed for CERs. As per AS 2, inventories should be valued at the lower of cost and net realisable value. Accordingly, CERs should be measured at cost or net realisable value, whichever is lower.

Cost of Inventories

23. AS 2 prescribes the composition of cost of inventories as follows:

"6. The cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition."

24. Various costs are incurred by the generating entity to set up a CDM project activity, operate the CDM project and generate CERs. These may include the following:

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- (i) research costs arising from exploring alternative ways to reduce emissions;
- (ii) costs incurred in developing the selected alternative as a process/device to reduce emissions;
- (iii) costs incurred to prepare the Project Design Documents;
- (iv) fees paid to DOEs for validation and verification and to the National Authority for approval;
- (v) fees of registering with UNFCCC;
- (vi) costs incurred for monitoring the reductions of emissions;
- (vii) costs incurred for certification of CERs; and
- (viii) operating costs incurred to run the CDM project.

25. As already mentioned earlier, CERs do not come into existence and, therefore, do not become the assets of the generating entity till the UNFCCC certifies and credits the same to the generating entity. Accordingly, not all costs incurred by the generating entity give rise to CERs and therefore not all costs can be considered as the costs of bringing the CERs to existence (i.e., their present location and condition). For example, the research and development costs as mentioned above are the pre-implementation costs of the CDM projects which do not result in CERs. Accordingly, these should be treated as per Accounting Standard (AS) 26, *Intangible Assets* (refer also to paragraph 30 below) when they bring into existence a separate intangible asset such as a patent of a process to reduce carbon emissions. Similarly, the other costs such as those incurred for preparation of PDD and registration of the CDM project with UNFCCC, etc., do not result in CERs coming into existence, and therefore these costs cannot be inventorised. It is only the costs incurred for the certification of CERs by UNFCCC which bring the CERs into existence by way of credit of the same by UNFCCC to the generating entity. Thus, the costs incurred by the generating entity for certification of CERs, are the costs of inventories of CERs.

26. In order to certify and issue CERs, UNFCCC imposes two types of levies on the generating entity. The first type of levy is in kind whereby a specified percentage of the CERs earned are deducted at the point of issuance by the

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UNFCCC. In other words, the generating entity is issued CERs net of this levy. For example, if this levy is 2% and if 1000 CERs are to be issued, then after deducting 20 CERs, 980 CERs will be credited. This levy is applied to all projects other than those of the Least Developed Countries. The second type of levy imposed is in the form of a cash payment which is charged by the UNFCCC towards meeting administrative costs of UNFCCC. In this levy, a fixed payment per unit of CER is charged for the total CERs credited to the generating entity. Taking the above example further, if USD 0.10 per CER is charged towards the second levy, then the generating entity will need to make a payment at this rate for the 980 CERs credited to it, i.e., USD 98. Apart from these two levies, the generating entity normally pays a fee to the consultant for the services rendered to obtain the certification of CERs by UNFCCC.

27. From the above, it follows that the 'costs incurred for certification of CERs' at which the inventory of CERs should be valued include the consultant's fee and the cash payment made under the second levy to the UNFCCC for obtaining the credit of CERs. The deduction of CERs by UNFCCC under the first levy is in kind which increases the per unit cost of the CERs credited to the generating entity.

Net Realisable Value

28. AS 2 defines net realisable value as follows:

"Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale."

29. In the determination of the net realisable value of CERs, paragraph 22 of AS 2 reproduced below should be used as guidance:

"22. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made as to the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the balance sheet date to the extent that such events confirm the conditions existing at the balance sheet date."

Income Recognition

30. Since CERs are recognised as inventories, the entity should apply AS 9 to recognise revenue in respect of sales of CERs .

Measurement of underlying assets related to CERs

31. For the generation of CERs, the generating entity may create certain intangible and tangible assets. For example, for reducing emissions, an entity may carry out some research and development which may result into creation of an intangible asset. Insofar as expenditure on research and development is concerned, the entity should apply AS 26, *Intangible Assets*.

32. In some cases, an entity may use a tangible asset to reduce emissions. For example, an entity may use incinerators for the purpose of reducing carbon emissions. In respect of such equipments/devices, the provisions of the Accounting Standard (AS) 10, (Revised) *Tangible Fixed Assets*³ will apply, as is evident from the following paragraph thereof:

“8.1A. Items of tangible fixed assets may be acquired for safety or environmental reasons. The acquisition of such tangible fixed assets, although not directly increasing the future economic benefits of any particular existing item of tangible fixed asset, may be necessary for an enterprise to obtain the future economic benefits from its other assets. Such items of tangible fixed assets qualify for recognition as assets because they enable an enterprise to derive future economic benefits from related assets in excess of what could be derived had those items not been acquired. For example, a chemical manufacturer may install new chemical handling processes to comply with environmental requirements for the production and storage of dangerous chemicals; related plant enhancements are recognised as an asset because without them the enterprise is unable to manufacture and sell chemicals. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with AS 28, *Impairment of Assets*.”

33. From the above, it is clear that any pollution control/emission reduction devices installed by the generating entity for the purpose of generating CERs are fixed assets and therefore they shall be accounted for as per AS 10 (Revised).

³ AS 10(revised), *Tangible Fixed Assets* is being formulated.

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Presentation

34. An entity should present certified emission rights as part of Inventories, in the balance sheet, separately from other categories of Inventories such as Raw Materials, Work-in-process, Finished goods and others.

Disclosure

35. An entity should disclose the following information relating to certified emission rights in the financial statements:

- a) No. of CERs held as inventory and the basis of valuation.
- b) No. of CERs under certification.
- c) Depreciation and operating and maintenance costs of Emission Reduction equipment expensed during the year.

Effective Date

36. An entity should apply this Guidance Note for accounting periods beginning on or after April 01, 2012.

Transition

37. On the first occasion this Guidance Note is applied, the entity should recognise in the financial statements certified emission rights earned as on that date with corresponding credit to revenue reserves.