ANNOUNCEMENTS OF THE COUNCIL REGARDING STATUS OF VARIOUS DOCUMENTS ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

I. Clarification regarding Authority Attached to Documents Issued by the Institute[1]

1. The Institute has, from time to time, issued 'Guidance Notes' and 'Statements' on a number of matters. With the formation of the Accounting Standards Board and the Auditing Practices Committee[2], 'Accounting Standards' and 'Statements on Standard Auditing Practices'[3] are also being issued.

2. Members have sought guidance regarding the level of authority attached to the various documents issued by the Institute and the degree of compliance required in respect thereof. This note is being issued to provide this guidance.

3. The 'Statements' have been issued with a view to securing compliance by members on matters which, in the opinion of the Council, are critical for the proper discharge of their functions. 'Statements' therefore are mandatory. Accordingly, while discharging their attest function, it will be the duty of the members of the Institute :–

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[1] Published in the December, 1985 issue of the 'The Chartered Accountant'.

[2] The Auditing Practices Committee of the Institute of Chartered Accountants of India was established in 1982 with, *inter alia*, the objectives of preparing the Statements on Standard Auditing Practices (SAPs), Guidance Notes on matters related to auditing, etc. At its 226th meeting held on July 2, 2002 at New Delhi, the Council of the Institute of Chartered Accountants of India approved the recommendations of the Auditing Practices Committee to strengthen the role being played by it in the growth and development of the profession of chartered accountancy in India. The Council also approved renaming of the Committee as, "Auditing and Assurance Standards Board" (AASB) with immediate effect to better reflect the activities being undertaken by the Committee. Apart from changes designed to strengthen the process for establishing auditing and assurance standards, such a move would bring about greater transparency in the working of the Auditing Practices Committee now known as the Auditing and Assurance Standards Board (AASB).

The Council also approved the renaming of the Statements on Standard Auditing Practices (SAPs) as, "Auditing and Assurance Standards" (AASs).

[3] *ibid*.

(a) to examine whether 'Statements' relating to accounting matters are complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the 'Statements', it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations; and

(b) to ensure that the 'Statements' relating to auditing matters are followed in the audit of financial information covered by their audit reports. If, for any reason, a member has not been able to perform an audit in accordance with such 'Statements', his report should draw attention to the material departures therefrom.

4. A list of 'Statements' issued by the Institute and currently in force is given at the end of this note.[4]

5. 'Guidance Notes' are primarily designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature. A member should ordinarily follow recommendations in a guidance note relating to an auditing matter except where he is satisfied that in the circumstances of the case, it may not be necessary to do so. Similarly, while discharging his attest function, a member should examine whether the recommendations in a guidance note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary.

6. There are however a few guidance notes in case of which the Council has specifically stated that they should be considered as mandatory on members while discharging their attest function. A list of these guidance notes is given below:–

(i) Guidance Note on Treatment of Interest on Deferred Payments read along with the pronouncement of the Council, published in

[4] Subsequent to the issuance of this 'Clarification', various other pronouncements of the Institute have been made mandatory, while some others have been withdrawn. For details of these and other developments, see the Announcements published hereafter. An updated list of mandatory statements on accounting and auditing is included in the 'List of Mandatory Statements and Standards' given after Announcement XXXIII. It may also be noted that besides statements on accounting and auditing, the Institute has issued statements on other aspects also, namely, Statement on Peer Review and Statement on Continuing Professional Education.

'The Chartered Accountant', March 1984.[5]

(ii) Provision for Depreciation in respect of Extra or Multiple Shift Allowance, published in 'The Chartered Accountant', May 1984.[6]

7. The 'Accounting Standards' and 'Statements on Standard Auditing Practices'[7] issued by the Accounting Standards Board and the Auditing Practices Committee[8], respectively, establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards and that auditors carry out their audits in accordance with the generally accepted auditing practices. They become mandatory on the dates specified either in the respective document or by notification issued by the Council.[9]

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[5] The nomenclature of this document was changed by the Council of the Institute at its 133rd meeting held in April, 1988. The new nomenclature was 'Statement on Treatment of Interest on Deferred Payments'. In view of para 8 of this 'Clarification', with Accounting Standard (AS) 10 on 'Accounting for Fixed Assets', becoming mandatory (see Announcement II) in respect of accounts for periods commencing on or after 1.4.1991, the 'Statement on Treatment of Interest on Deferred Payments' stands automatically withdrawn except in the case of certain specified non-corporate entities where it stands withdrawn in respect of accounts for periods commencing on or after 1.4.1993 (see Announcements III, V and VI in this regard). It may be noted that pursuant to the issuance of Accounting Standard (AS) 16 on 'Borrowing Costs', which came into effect in respect of accounting periods commencing on or after 1-4-2000, paragraph 9.2 and paragraph 20 (except the first sentence) of AS 10, relating to treatment of finance costs including interest, stand withdrawn from that date.

[6]The nomenclature of this document was changed by the Council of the Institute at its 133rd meeting held in April, 1988. The new nomenclature was 'Statement on Provision for Depreciation in respect of Extra or Multiple Shift Allowance'. This statement has been withdrawn in respect of accounting periods commencing on or after 1.4.1989, as per the Guidance Note on Accounting for Depreciation in Companies, issued in pursuance of amendments in the Companies Act, 1956, through Companies (Amendment) Act, 1988.

[7] Refer footnote 2. 'Statements on Standard Auditing Practices' have been renamed as 'Auditing and Assurance Standards'.

[8] Refer footnote 2. The 'Auditing Practices Committee' has been renamed as 'Auditing and Assurance Standards Board'.

[9] Subsequent to the publication of this Clarification, the Council has made various Accounting Standards mandatory. The Announcements made by the Council in this regard are reproduced hereafter.

8. There can be situations in which certain matters are covered both by a 'Statement' and by an 'Accounting Standard'/'Statement on Standard Auditing Practices'[10]. In such a situation, the 'Statement' shall prevail till the time the relevant 'Accounting Standard'/'Statement on Standard Auditing Practices'[11] becomes mandatory. It is clarified that once an 'Accounting Standard'/ 'Statement on Standard Auditing Practices'[12] becomes mandatory, the concerned 'Statement' or the relevant part thereof shall automatically stand withdrawn.[13]

9. List of statements[14] issued by the Institute and which are mandatory in nature.

1. Statement on Auditing Practices.

2. Statement on Payments to Auditors for Other Services.

3. Statement on the Manufacturing and Other Companies (Auditor's Report) Order, 1975 (Issued under Section 227(4A) of the Companies Act, 1956)[15].

4. Statement on Qualifications in Auditor's Report.

5. Statement on Standard Auditing Practices (SAP-1) on 'Basic Principles Governing an Audit'.

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[10] Refer footnote 2. 'Statements on Standard Auditing Practices' have been renamed as 'Auditing and Assurance Standards'.

[11] *ibid.*

[12] *ibid*.

[13] See also 'Clarification on Status of Accounting Standards and Guidance Notes' (reproduced hereafter as Announcement XIII).

[14] This list is as of December, 1985. An updated list of mandatory statements and standards issued by the Institute is given separately after Announcement XXXIII.

[15] This Statement was issued pursuant to the Manufacturing and Other Companies (Auditor's Report) Order, 1975, promulgated by the Government of India under section 227(4A) of the Act. The Order was superseded by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 (MAOCARO, 1988). The Institute, accordingly, issued a Statement on MAOCARO, 1988. The MAOCARO, 1988 has been superseded by the Companies (Auditor's Report) Order, 2003 (CARO, 2003). Consequently, the Institute has issued a Statement on CARO, 2003.

6. Statement on Standard Auditing Practices (SAP-2) on 'Objective and Scope of the Audit of Financial Statements'.

7. Statement on Standard Auditing Practices (SAP-3) on 'Documentation'.

8. Statement on the Responsibility of Joint Auditors.[16]

9. Statement on the Treatment of Retirement Gratuity in Accounts.[17]

10. Statement on the Amendments to Schedule VI to the Companies Act.

11. Statement of Accounting for Foreign Currency Translation.[18]

II. Accounting Standards 1, 7, 8, 9 and 10 Made Mandatory[19]

1. It is hereby notified that the Council of the Institute, at its 144th meeting, held on June 7-9, 1990, has decided that the following Accounting Standards

[16] Paragraphs 17-29 of this Statement were withdrawn in respect of audits relating to accounting periods beginning on or after 1.4.1995. These paragraphs were covered by the Auditing and Assurance Standard (AAS) 10, 'Using the Work of Another Auditor', which is operative for audits relating to accounting periods beginning on or after 1.4.1995. This statement has been completely withdrawn on the issuance of the Auditing and Assurance Standard (AAS) 12, 'Responsibility of Joint Auditors'. AAS 12 is operative for audits relating to accounting periods beginning on or after 1.4.1996.

[17] This statement was withdrawn from 1.4.1995 pursuant to the issuance of Accounting Standard (AS) 15, 'Accounting for Retirement Benefits in the Financial Statements of Employers'. AS 15 is mandatory in respect of accounting periods commencing on or after 1.4.1995. AS 15 (issued 1995) has been revised in 2005 and titled as 'Employee Benefits'. Subsequently, a limited revision has also been made to AS 15 (revised 2005). AS 15 (revised 2005), after incorporating the said Limited Revision, comes into effect in respect of accounting periods commencing on or after 01.04.2006. AS 15 (issued 1995) as well as AS 15 (revised 2005) are published elsewhere in this Compendium.

[18] This 'Statement' was withdrawn from accounting periods commencing on or after 1.4.1989 on the issuance of Accounting Standard (AS) 11 on 'Accounting for the Effects of Changes in Foreign Exchange Rates'. For current status of AS 11, see Announcement IV read with footnote 41 and Announcements IX, XVIII, XXII, XXXI, XXXII and XXXIII.

[19] Published in July, 1990 issue of 'The Chartered Accountant'.

will become mandatory in respect of accounts for periods commencing on or after 1.4.1991.[20]

(a) AS 1 - Disclosure of Accounting Policies

(b) AS 7 - Accounting for Construction Contracts[21]

(c) AS 8 - Accounting for Research and Development[22]

(d) AS 9 - Revenue Recognition

(e) AS 10 - Accounting for Fixed Assets

2. The Companies Act, 1956, as well as many other statutes require that the financial statements of an enterprise should give a true and fair view of its financial position and working results. This requirement is implicit even in the absence of a specific statutory provision to this effect. However, what constitutes 'true and fair' view has not been defined either in the Companies

[20] Subsequently, however, the Council decided that these standards should be mandatory for certain enterprises, viz., Sole proprietary concerns, Partnership firms, Societies registered under the Societies Registration Act, Trusts, Hindu undivided families, and Associations of persons, only in respect of accounts for periods commencing on or after 1.4.1993. The Announcement made by the Council in this regard is reproduced hereafter (See Announcement III). This Announcement was partially modified by the Announcement published in January 1994 issue of 'The Chartered Accountant' (See Announcement V). Further, in this regard, the Council issued an Announcement on applicability of accounting standards in the context of section 44AB of the Income Tax Act (See Announcement VI). Also, subsequently, an Announcement on applicability of accounting standards to Charitable and/or Religious Organisations has been issued (See Announcement VIII). Further, a Clarification, namely, General Clarification (GC) - 12/2002 on applicability of accounting standards to Co-operative Societies has been issued (See Announcement XVI). It may be noted that with the issuance of the Preface to the Statements of Accounting Standards (revised 2004), the Announcement on 'Applicability of Accounting Standards to Charitable and/or Religious Organisations' and GC-12/2002, stand superseded. The revised Preface is published elsewhere in this Compendium.

[21] AS 7 (issued 1983) was revised in 2002 and titled as 'Construction Contracts'. The revised AS 7 is published elsewhere in this Compendium.

[22] AS 8 stands withdrawn from the date of Accounting Standard (AS) 26, 'Intangible Assets', becoming mandatory, for the concerned enterprises (see AS 26 published elsewhere in this Compendium).

Act, 1956 or in any other statute. The pronouncements of the Institute seek to describe the accounting principles and the methods of applying these principles in the preparation and presentation of financial statements so that they give a true and fair view.

3. The 'Preface to the Statements of Accounting Standards'[23] issued by the Institute in 1979 states (paragraphs 6.1 and 6.2):

> "6.1 While discharging their attest function, it will be the duty of the members of the Institute to ensure that the Accounting Standards are implemented in the presentation of financial statements covered by their audit reports. In the event of any deviation from the Standards, it will be also their duty to make adequate disclosures in their reports so that the users of such statements may be aware of such deviations.
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> 6.2 In the initial years, the Standards will be recommendatory in character and the Institute will give wide publicity among the users and educate members about the utility of Accounting Standards and the need for compliance with the above disclosure requirements. Once an awareness about these requirements is ensured, steps will be taken, in the course of time, to enforce compliance with accounting standards in the manner outlined in para 6.1 above."

4. In accordance with para 6.2 of the 'Preface to the Statements of Accounting Standards'[24], the Council of the Institute has decided to make Accounting Standards mandatory in a phased manner. Accordingly, the Council has already made two Accounting Standards, viz., Accounting Standard (AS) 4, 'Contingencies and Events Occurring After the Balance Sheet Date'[25] and Accounting Standard (AS) 5, 'Prior Period and

[23] With the issuance of the Preface to the Statements of Accounting Standards (revised 2004), the Preface to the Statements of Accounting Standards, issued in January, 1979, stands superseded. The revised Preface is published elsewhere in this Compendium.

[24] *ibid*.

[25] This Standard has been revised (published in April, 1995 issue of 'The Chartered Accountant'). The revised standard came into effect in respect of accounting periods commencing on or after 1.4.1995 and is mandatory in nature. Pursuant to AS 29, *Provisions, Contingent Liabilities and Contingent Assets*, becoming mandatory in respect of accounting periods commencing on or after 1-4-2004, all paragraphs of AS 4 that deal with contingencies stand withdrawn except to the extent they deal with impairment of assets not covered by present Indian Accounting Standards (see Announcement XX).

Extraordinary Items and Changes in Accounting Policies'[26] mandatory in respect of accounts for periods commencing on or after 1.1.87. It has now been decided by the Council to make five more Accounting Standards (listed in para 1 above) mandatory in respect of accounts for periods commencing on or after 1.4.1991.

5. Attention of the members is also invited to the 'Clarification regarding authority attached to the documents issued by the Institute'. According to the said clarification, 'Statements' have been issued with a view to securing compliance by members on matters which in the opinion of the Council are critical for the proper discharge of their functions. 'Statements' therefore are mandatory. Accordingly, while discharging their attest function, it will be the duty of the members of the Institute:

(a) to examine whether 'Statements' relating to accounting matters are complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the 'Statements', it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations; and

(b) to ensure that the 'Statements' relating to auditing matters are followed in the audit of financial information covered by their audit reports. If for any reason a member has not been able to perform an audit in accordance with such 'Statements', his report should draw attention to the material departures therefrom.

6. Once an Accounting Standard becomes mandatory, the duties of an auditor with respect to such Standard are the same as those specified at paragraph 5(a) above.

7. While discharging their attest function, the members of the Institute may keep the following in mind with regard to the above Standards.

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[26] This Standard has been revised and titled as 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' (published in February, 1997 issue of 'The Chartered Accountant'). The revised standard came into effect in respect of accounting periods commencing on or after 1.4.1996 and is mandatory in nature. Subsequently, a limited revision has also been made in this standard (published in 'The Chartered Accountant', September 2001, pp. 342).

AS 1- DISCLOSURE OF ACCOUNTING POLICIES

8. In the case of a company, members should qualify their audit reports in case –

(a) accounting policies required to be disclosed under Schedule VI or any other provisions of the Companies Act, 1956 have not been disclosed, or

(b) accounts have not been prepared on accrual basis, or

(c) the fundamental accounting assumption of going concern has not been followed and this fact has not been disclosed in the financial statements, or

(d) proper disclosures regarding changes in the accounting policies have not been made.

9. Where a company has been given a specific exemption regarding any of the matters stated in paragraph 8 above but the fact of such exemption has not been adequately disclosed in the accounts, the member should mention the fact of exemption in his audit report without necessarily making it a subject matter of audit qualification.

10. If accounting policies have not been disclosed at one place, or if certain significant accounting policies have not been disclosed, by a company on the ground that their disclosure is not required under the Companies Act, 1956, the member should disclose the fact in his audit report without necessarily making it a subject matter of audit qualification. Such a disclosure would not constitute a reservation, qualification or adverse remark except where the auditor has specifically made it a subject matter of audit qualification. Accordingly, in the case of a company, the Board of Directors need not provide information or explanation with regard to such a disclosure (except where the same constitutes a qualification) in their report under sub-section (3) of section 217 of the Companies Act, 1956.

11. In the case of enterprises[27] not governed by the Companies Act, 1956, the member should examine the relevant statute and make suitable qualification in his audit report in case adequate disclosures regarding accounting policies have not been made as per the statutory requirements. Similarly, the member should examine if the fundamental accounting assumptions have been followed in preparing the financial statements or not. In appropriate cases, he should consider whether, keeping in view the requirements of the applicable laws, a qualification in his report is necessary.

12. In the event of non-compliance, by enterprises[28] not governed by the Companies Act, 1956, with the disclosure requirements of AS 1 in situations where the relevant statute does not require such disclosures to be made, the member should make adequate disclosure in his audit report without necessarily making it a subject matter of audit qualification.

ACCOUNTING STANDARDS 7, 8, 9 AND 10

13. Non-compliance with any of the requirements of the above Standards by any enterprise[29] should be a subject matter of qualification except that, to the extent that the disclosure requirements in the relevant standard are in addition to the requirements of the Companies Act, 1956 or any other applicable

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[27] Subsequently, however, the Council decided that these standards should be mandatory for certain enterprises, viz., Sole proprietary concerns, Partnership firms, Societies registered under the Societies Registration Act, Trusts, Hindu undivided families, and Associations of persons, only in respect of accounts for periods commencing on or after 1.4.1993. The Announcement made by the Council in this regard is reproduced hereafter (See Announcement III). This Announcement was partially modified by the Announcement published in January, 1994 issue of 'The Chartered Accountant' (See Announcement V). Further, in this regard, the Council issued an Announcement on applicability of accounting standards in the context of section 44AB of the Income Tax Act (See Announcement VI). Also, subsequently, an Announcement on applicability of accounting standards to Charitable and/or Religious Organisations has been issued (See Announcement VIII). Further, a Clarification, namely, General Clarification (GC) - 12/2002 on applicability of accounting standards to Co-operative Societies has been issued (See Announcement XVI). It may be noted that with the issuance of the Preface to the Statements of Accounting Standards (revised 2004), the Announcement on 'Applicability of Accounting Standards to Charitable and /or Religious Organisations' and GC-12/ 2002 stand superseded. The revised Preface is published elsewhere in this Compendium.

[28] *ibid.*

[29] *ibid*

statute, the member should disclose the fact of non-compliance with such disclosure requirements in his audit report without necessarily making it a subject matter of audit qualifications. Accordingly, in the case of a company, the Board of Directors need not provide information or explanation with regard to such a disclosure (except where the same constitutes a qualification) in their report under sub-section (3) of section 217 of the Companies Act, 1956.

ACCOUNTING STANDARDS 4, 5 AND 11

14. Accounting Standard (AS) 4, 'Contingencies and Events Occurring after the Balance Sheet Date'[30] and Accounting Standard (AS) 5, 'Prior Period and Extraordinary Items and Changes in Accounting Policies'[31] have already been made mandatory in respect of accounts for periods commencing on or after 1.1.1987. The Council of the Institute has also already announced that Accounting Standard (AS) 11, 'Accounting for the Effects of Changes in Foreign Exchange Rates', will become mandatory in respect of accounts for periods commencing on or after 1.4.1991[32]. It may be clarified that the

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[30] This Accounting Standard was revised (published in April, 1995 issue of 'The Chartered Accountant'). The revised standard came into effect in respect of accounting periods commencing on or after 1.4.1995 and is mandatory in nature. Pursuant to AS 29, *Provisions, Contingent Liabilities and Contingent Assets,* becoming mandatory in respect of accounting periods commencing on or after 1-4-2004, all paragraphs of AS 4 that deal with contingencies stand withdrawn except to the extent they deal with impairment of assets not covered by present Indian Accounting Standards (see Announcement XX).

[31] This Standard has been revised and titled as 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' (published in February, 1997 issue of 'The Chartered Accountant'). The revised standard came into effect in respect of accounting periods commencing on or after 1.4.1996 and is mandatory in nature. Subsequently, a limited revision has also been made in this standard (published in 'The Chartered Accountant', September 2001, pp. 342).

[32] The Council subsequently postponed the mandatory application of AS 11 to accounts for the periods commencing on or after 1.4.1993 (See Announcement IV). The standard was subsequently revised in December, 1994, which was published in January, 1995, issue of 'The Chartered Accountant' and was mandatory in respect of accounting periods commencing on or after 1.4.1995. The Council subsequently clarified that this standard is not applicable to forward exchange transactions which are entered into by authorised foreign exchange dealers (see Announcement IX). The Standard has again been revised in 2003 and titled as 'The Effects of Changes in Foreign Exchange Rates', (published in March, 2003, issue of 'The Chartered Accountant'). See footnote 41 and Announcements XVIII, XXII, XXXI, XXXII and XXXIII also.

requirements of paragraph 13 above will also apply in making a qualification/ disclosure in respect of deviations from the requirements of these Accounting Standards.

MANNER OF MAKING QUALIFICATION/DISCLOSURE IN THE AUDIT REPORT

15. In making a qualification/disclosure in the audit report, the auditor should consider the materiality of the relevant item. Thus, the auditor need not make qualification/disclosure in respect of items which, in his judgement, are not material.

16. While making a qualification, the auditor should follow the requirements of the 'Statement on Qualifications in Auditor's Report'[33] issued by the Institute.

17. A disclosure, which is not a subject matter of audit qualification, should be made in the auditor's report in a manner that it is clear to the reader that the disclosure does not constitute an audit qualification. The paragraph containing the auditor's opinion on true and fair view should not include a reference to the paragraph containing the aforesaid disclosure.

EXAMPLES OF QUALIFICATIONS/DISCLOSURES IN THE AUDIT REPORT

18. Given below are some examples which illustrate the manner of making qualification/disclosure in the audit report in case of deviations from the requirements of mandatory Accounting Standards. It may be clarified that these examples are aimed only at illustrating the manner of making qualifications/disclosures and are not intended in any way to be exhaustive.

Examples of Qualifications

(a) Where proper disclosures regarding changes in accounting policies have not been made by a company.

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[33] The Council of the Institute has issued Auditing and Assurance Standard (AAS) 28, 'The Auditor's Report on Financial Statements'. AAS 28 lays down the principles to be followed in making qualification/ disclosure in the audit report. The 'Statement on Qualifications in Auditor's Report' provides, inter alia, the guidance on the application of principles contained in the AAS. However, in the case of any inconsistency between the two, the requirements laid down by AAS 28 shall prevail.

"The company has not disclosed in its accounts the fact of change, from this year, in the method of providing depreciation on plant and machinery from straight-line method to written-down value method, as also the effect of this change. As a result of this change, the net profit for the year, the net block as well as the reserves and surplus are lower by Rs……… each as compared to the position which would have prevailed had this change not been made.

Subject to the above, we report that ....".

(b) Where a manufacturing company has accounted for interest income on receipt basis.

"The company has followed the policy of accounting for interest income on receipt basis rather than on accrual basis. As a result, the net profit for the year and the current assets are understated by Rs……… each as compared to the position which would have prevailed if the company had accounted for interest income on accrual basis.

Subject to the above, we report that ... ".

(c) Where a company has capitalised financing costs related to certain fixed assets for periods after such assets were ready to be put to use.

"Interest payable on borrowings related to the acquisition of fixed assets has been capitalised for the periods during which the assets were in use for commercial production. This is contrary to Accounting Standard (AS) 10, 'Accounting for Fixed Assets' issued by the Institute of Chartered Accountants of India.[34] Consequently, the net profit for the year, the net block and the reserves and surplus have been overstated by Rs.... each as compared to the position which would have prevailed if the company had complied with the requirements of AS 10.

Subject to the above, we report that ...."

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[34] It may be noted that pursuant to the issuance of Accounting Standard (AS) 16, 'Borrowing Costs', which came into effect in respect of accounting periods commencing on or after 1-4-2000, paragraph 9.2 and paragraph 20 (except the first sentence) of AS 10, relating to treatment of finance costs including interest, stand withdrawn from that date. Accordingly, while qualifying his report on financial statements covering accounting periods commencing on or after April 1, 2000, in the situation envisaged in this example, the auditor should make reference to AS 16 instead of AS 10.

Examples of Disclosures

(a) Where a company has not disclosed all significant accounting policies and has also not disclosed the accounting policies at one place.

> "The company has disclosed those accounting policies the disclosure of which is required by the Companies Act, 1956. Other significant accounting policies, viz., those relating to treatment of research and development costs and treatment of exchange gains and losses have not been disclosed nor have all the policies been disclosed at one place, which is contrary to Accounting Standard (AS) 1, 'Disclosure of Accounting Policies' issued by the Institute of Chartered Accountants of India.
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> We report that ...."

(b) Where a partnership firm[35] does not make adequate disclosures regarding the revaluation of its fixed assets.

> "During the year, the enterprise revalued its land and buildings. The revalued amounts of land and buildings are adequately disclosed in the balance sheet. However, the method adopted to compute the revalued amounts has not been disclosed, which is contrary to Accounting Standard (AS) 10, 'Accounting for Fixed Assets' issued by the Institute of Chartered Accountants of India.

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[35] Subsequently, however, the Council decided that these standards should be mandatory for certain enterprises, viz., Sole proprietary concerns, Partnership firms, Societies registered under the Societies Registration Act, Trusts, Hindu undivided families, and Associations of persons, only in respect of accounts for periods commencing on or after 1.4.1993. The Announcement made by the Council in this regard is reproduced hereafter (See Announcement III). This Announcement was partially modified by the Announcement published in January, 1994 issue of 'The Chartered Accountant' (See Announcement V). Further, in this regard, the Council issued an Announcement on applicability of accounting standards in the context of section 44AB of the Income Tax Act (See Announcement VI). Also, subsequently, an Announcement on applicability of accounting standards to Charitable and/ or Religious Organisations has been issued (See Announcement VIII). Further, a Clarification, namely, General Clarification (GC)- 12/2002 on applicability of accounting standards to Co-operative Societies has been issued (See Announcement XVI). It may be noted that with the issuance of the Preface to the Statements of Accounting Standards (revised 2004), the Announcement on 'Applicability of Accounting Standards to Charitable and/or Religious Organisations' and GC-12/2002 stand superseded. The revised Preface is published elsewhere in this Compendium.

We report that ....”

III. Applicability of Mandatory Accounting Standards to Non-corporate Enterprises[36]

In the July 1990 issue of the Journal, the Council had notified its decision to make the following Accounting Standards mandatory in respect of accounts for periods commencing on or after 1.4.1991.

1. AS 1 - Disclosure of Accounting Policies
2. AS 7 - Accounting for Construction Contracts[37]
3. AS 8 - Accounting for Research and Development[38]
4. AS 9 - Revenue Recognition
5. AS 10 - Accounting for Fixed Assets

Based on the views expressed at various seminars organised to discuss the implications of accounting and auditing standards as also in the light of several representations received in this behalf, the matter has since been reconsidered by the Council and the following has been decided.

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[36] Published in May, 1991 issue of ‘The Chartered Accountant’. This Announcement was partially modified by the Announcement published in January, 1994 issue of ‘The Chartered Accountant’ (See Announcement V). Further, in this regard, the Council issued an Announcement on applicability of accounting standards in the context of section 44AB of the Income Tax Act (See Announcement VI). Also, subsequently, an Announcement on applicability of accounting standards to Charitable and/or Religious Organisations has been issued (See Announcement VIII). Further, a Clarification, namely, General Clarification (GC)- 12/2002 on applicability of accounting standards to Co-operative Societies has been issued (See Announcement XVI). It may be noted that with the issuance of the Preface to the Statements of Accounting Standards (revised 2004), the Announcement on 'Applicability of Accounting Standards to Charitable and/or Religious Organisations' and GC-12/2002 stand superseded. The revised Preface is published elsewhere in this Compendium.

[37] AS 7 (issued 1983) was revised in 2002 and titled as ‘Construction Contracts’. The revised AS 7 is published elsewhere in this Compendium.

[38] AS 8 stands withdrawn from the date of Accounting Standard (AS) 26, ‘Intangible Assets’, becoming mandatory, for the concerned enterprises (see AS 26 published elsewhere in this Compendium).

1. Accounting Standards 1, 7, 8, 9, 10 and 11 should be mandatory in respect of accounts for periods beginning on or after 1.4.1991 for companies governed by the Companies Act, 1956 as well as for other enterprises except the following –

(a) Sole proprietary concerns/individuals

(b) Partnership firms

(c) Societies registered under the Societies Registration Act

(d) Trusts

(e) Hindu undivided families

(f) Associations of persons.

2. In respect of the enterprises listed at (a) to (f) above, Accounting Standards 1, 7, 8, 9,10 & 11[39] should be mandatory in respect of accounts for periods beginning on or after 1.4.1993.

3. The Statements on auditing matters should continue to be mandatory in respect of audit of all enterprises.

IV. Accounting Standard 11[40]

The Accounting Standard No. 11 on Accounting for the Effects of Changes in Foreign Exchange Rates which came into effect as recommendatory in respect of accounting periods commencing on or after 1st April, 1989 had been made mandatory in respect of accounts for periods commencing on or after 1st April, 1991.

However, in view of the partial convertibility of the rupee recently announced and other related developments in the changed economic environment, it has now been decided to reconsider this Accounting Standard. Accordingly, the Council has resolved that the mandatory

[39] Regarding AS 11, see the Announcements made by the Council in this regard at IV, IX, XVIII, XXII, XXXI, XXXII and XXXIII and footnote 41 for subsequent developments.

[40] Published in 'The Chartered Accountant', June, 1992.

application of this Accounting Standard shall stand postponed to accounts for periods commencing on or after 1st April, 1993.

It is expected that reconsideration of this Accounting Standard will have been carried out well before 1st April, 1993 .[41]

V. Mandatory Application of Accounting Standards in respect of Certain Non-corporate Bodies[42]

1. In May 1991 issue of 'The Chartered Accountant', an announcement was carried regarding the decision of the Council of the Institute of Chartered Accountants of India to defer the mandatory application of Accounting Standards 1, 7, 8, 9, 10 and 11 to accounts for periods beginning on or after 1.4.1993, in respect of the following:

(a) Sole proprietary concerns/individuals

(b) Partnership firms

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[41] The Standard was subsequently revised in December, 1994 , which was published in January, 1995, issue of 'The Chartered Accountant' and was mandatory in respect of accounting periods commencing on or after 1.4.1995. See Announcement IX also. This Standard has again been revised in 2003, and titled as 'The Effects of Changes in Foreign Exchange Rates', (published in March, 2003, issue of 'The Chartered Accountant'). The revised AS 11(2003) comes into effect in respect of accounting periods commencing on or after 1-4-2004 and is mandatory in nature from that date. The revised standard supersedes AS 11 (1994), except that in respect of accounting for transactions in foreign currencies entered into by the reporting enterprise itself or through its branches before the date the revised AS 11 (2003) comes into effect, AS 11 (1994) continues to be applicable. See also Announcements XVIII, XXII, XXXI, XXXII and XXXIII.

[42] Published in 'The Chartered Accountant', January, 1994 (page 639). For auditor's duties in relation to mandatory accounting standards, reference may be made to the Announcement concerning mandatory accounting standards published in the July, 1990 issue of the Journal (See Announcement II). Further, in this regard, the Council issued an Announcement on applicability of accounting standards in the context of section 44AB of the Income Tax Act (See Announcement VI). Also, subsequently, an Announcement on applicability of accounting standards to Charitable and/or Religious Organisations has been issued (See Announcement VIII). Further, a Clarification, namely, General Clarification (GC)- 12/2002 on applicability of accounting standards to Co-operative Societies has been issued (See Announcement XVI). It may be noted that with the issuance of the Preface to the Statements of Accounting Standards (revised 2004), the Announcement on 'Applicability of Accounting Standards to Charitable and/or Religious Organisations' and GC-12/2002 stand superseded. The revised Preface is published elsewhere in this Compendium.

(c) Societies registered under the Societies Registration Act

(d) Trusts

(e) Hindu Undivided Families

(f) Associations of persons.

2. The matter was re-considered by the Council at its meeting held in September, 1993 and it was decided, in partial modification of the earlier decision, that the aforesaid Accounting Standards (except Accounting Standard 11, which has already been withdrawn), shall mandatorily apply in respect of general purpose financial statements of the individual/bodies listed at (a) - (f) above for periods beginning on or after 1.4.1993, where such statements are statutorily required to be audited under any law. It may be reiterated that the Institute issues Accounting Standards for use in the presentation of general purpose financial statements issued to the public by such commercial, industrial or business enterprises as may be specified by the Institute from time to time and subject to the attest function of its members. The term “General Purpose Financial Statements” includes balance sheet, statement of profit and loss and other statements and explanatory notes which form part thereof, issued for use of shareholders/members, creditors, employees and public at large.

3. According to Accounting Standard 1, Disclosure of Accounting Policies, ‘accrual’ is one of the fundamental accounting assumptions. The Standard requires that if any fundamental accounting assumption is not followed in the preparation and presentation of financial statements, the fact should be disclosed. Accordingly, in respect of individual/bodies covered by para 1 above, the auditor should examine whether the financial statements have been prepared on accrual basis. In cases where the statute governing the enterprise requires the preparation and presentation of financial statements on accrual basis but the financial statements have not been so prepared, the auditor should qualify his report. On the other hand, where there is no *statutory requirement* for preparation and presentation of financial statements on accrual basis, and the financial statements have been prepared on a basis other than ‘accrual’ the auditor should describe in his audit report, the basis of accounting followed, without necessarily making it a subject matter of a qualification. In such a case the auditor should also examine whether those provisions of the accounting standards which are applicable in the context of the basis of accounting followed by the enterprise have been complied with

or not and consider making suitable disclosures/ qualifications in his audit report accordingly.

4. An example of a disclosure in the audit report of an enterprise which follows cash basis of accounting is given below:

> "It is the policy of the enterprise to prepare its financial statements on the cash receipts and disbursements basis. On this basis revenue and the related assets are recognised when received rather than when earned, and expenses are recognised when paid rather than when the obligation is incurred.
>
> In our opinion, the financial statements give a true and fair view of the assets and liabilities arising from cash transactions of ..... at ...... and of the revenue collected and expenses paid during the year then ended on the cash receipts and disbursements basis as described in Note X."

VI. Mandatory Application of Accounting Standards in respect of Tax Audit under Section 44AB of the Income Tax Act, 1961[43]

In an announcement published in January, 1994 issue of 'The Chartered Accountant' (p.639), members had been informed that Accounting Standards 1, 7, 8, 9 and 10 shall mandatorily apply in respect of general purpose financial statements of the individuals/bodies specified in this behalf for periods beginning on or after 1.4.1993, where such statements were statutorily required to be audited under any law[44] (the aforesaid announcement is reproduced below for ready reference). Queries have been received as to whether the mandatory accounting standards apply in respect of financial statements audited under section 44AB of the Income-tax Act, 1961. **It is hereby clarified that the mandatory accounting standards also apply in respect of financial statements audited under section 44AB of the Income-tax Act, 1961. Accordingly, members should examine compliance with the mandatory accounting standards when conducting such audit.**

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[43] Published in 'The Chartered Accountant', August, 1994 (page 224). For auditor's duties in relation to mandatory accounting standards, reference may be made to the Announcement concerning mandatory accounting standards published in the July, 1990 issue of the Journal (See Announcement II).

[44] It may be noted that Accounting Standards 4 and 5 were made mandatory by the Council of the Institute earlier in respect of accounts for periods commencing on or after 1.1.1987.

Mandatory Application of Accounting Standards in respect of Certain Non-corporate Bodies[45]

1. In May, 1991 issue of 'The Chartered Accountant', an announcement was carried regarding the decision of the Council of the Institute of Chartered Accountants of India to defer the mandatory application of Accounting Standards 1, 7, 8, 9, 10 and 11 to accounts for periods beginning on or after 1.4.1993, in respect of the following:

(a) Sole proprietary concerns/individuals

(b) Partnership firms

(c) Societies registered under the Societies Registration Act

(d) Trusts

(e) Hindu Undivided Families

(f) Associations of persons.

2. The matter was re-considered by the Council at its meeting held in September, 1993 and it was decided, in partial modification of the earlier decision, that the aforesaid Accounting Standards (except Accounting Standard 11, which has already been withdrawn), shall mandatorily apply in respect of general purpose financial statements of the individual/ bodies listed at (a) - (f) above for periods beginning on or after 1.4.1993, where such statements are statutorily required to be audited under any law. It may be reiterated that the Institute issues Accounting Standards for use in presentation of general purpose financial statements issued to the public by such commercial, industrial or business enterprises as may be specified by the Institute from time to time and subject to the attest function of its members. The term "General Purpose Financial Statements" includes balance sheet, statement of profit and loss and other statements and explanatory notes which form part thereof, issued for use of shareholders/members, creditors, employees and public at large.

3. According to Accounting Standard 1, Disclosure of Accounting Policies, 'accrual' is one of the fundamental accounting assumptions. The Standard requires that if any fundamental accounting assumption is not followed in the preparation and presentation of financial statements, the fact should be

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[45] Published in 'The Chartered Accountant', January, 1994, pp 639.

disclosed. Accordingly, in respect of individual/bodies covered by para 1 above, the auditor should examine whether the financial statements have been prepared on accrual basis. In cases where the statute governing the enterprise requires the preparation and presentation of financial statements on accrual basis but the financial statements have not been so prepared, the auditor should qualify his report. On the other hand, where there is no statutory requirement for preparation and presentation of financial statements on accrual basis, and the financial statements have been prepared on a basis other than 'accrual' the auditor should describe in his audit report, the basis of accounting followed, without necessarily making it a subject matter of a qualification. In such a case the auditor should also examine whether those provisions of the accounting standards which are applicable in the context of the basis of accounting followed by the enterprise have been complied with or not and consider making suitable disclosures/ qualifications in his audit report accordingly.

4. An example of a disclosure in the audit report of an enterprise which follows cash basis of accounting is given below:

> "It is the policy of the enterprise to prepare its financial statements on the cash receipts and disbursements basis. On this basis revenue and the related assets are recognised when received rather than when earned, and expenses are recognised when paid rather than when the obligation is incurred. In our opinion, the financial statements give a true and fair view of the assets and liabilities arising from cash transactions of .....at .....and of the revenue collected and expenses paid during the year then ended on the cash receipts and disbursements basis as described in Note X."

VII. Accounting Standard (AS) 6 (Revised), Depreciation Accounting, Made Mandatory[46]

Accounting Standard (AS) 6, Depreciation Accounting, was issued by the Accounting Standards Board originally in 1982 and was subsequently revised in 1994 (please see pages 218-219 of the August 1994 issue of 'The Chartered Accountant').

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[46] Published in 'The Chartered Accountant', May, 1995 (page 1544). It may be noted that pursuant to AS 26, *Intangible Assets*, becoming mandatory, for the concerned enterprises, AS 6 stands withdrawn insofar as it relates to amortisation (depreciation) of intangible assets (see AS 26 published elsewhere in this Compendium).

The Council of the Institute has now decided to make AS 6 mandatory in respect of accounts for periods commencing on or after April l, 1995. The mandatory status of AS 6 implies that while discharging their attest function, it will be the duty of the members of the Institute to examine whether the said Standard has been complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the said Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations. For a detailed guidance on the duties of the members in relation to mandatory Accounting Standards, reference may be made to the announcement published in the July 1990 issue of 'The Chartered Accountant'.

VIII. Applicability of Accounting Standards to Charitable and/or Religious Organisations[47]

The Accounting Standards Board has received a query as to whether the accounting standards formulated by it are applicable to organisations whose objects are charitable or religious. The Board has considered this query and its views in the matter are set forth in the following paragraphs.

The Preface to the Statements of Accounting Standards[48] states:

> "3.3 The Institute will issue Accounting Standards for use in the presentation of the general purpose financial statements issued to the public by such commercial, industrial or business enterprises as may be specified by the Institute from time to time and subject to the attest function of its members."

The reference to commercial, industrial or business enterprises in the aforesaid paragraph is in the context of the nature of activities carried on by the enterprise rather than with reference to its objects. It is quite possible that an enterprise has charitable objects but it carries on, either wholly or in part, activities of a commercial, industrial or business nature in furtherance of its objects. The Board believes that Accounting Standards apply in respect of

[47] As approved by the Council; published in 'The Chartered Accountant', September 1995 (page 79).
With the issuance of the Preface to the Statements of Accounting Standards (revised 2004), this Announcement stands superseded. The revised Preface is published elsewhere in this Compendium.

[48] With the issuance of the Preface to the Statements of Accounting Standards (revised 2004), the Preface to the Statements of Accounting Standards, issued in January, 1979, stands superseded.

commercial, industrial or business activities of any enterprise, irrespective of whether it is profit oriented or is established for charitable or religious purposes. Accounting Standards will not, however, apply to those activities which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people.)

It is also clarified that exclusion of an entity from the applicability of the Accounting Standards would be permissible only if no part of the activity of such entity was commercial, industrial or business in nature. For the removal of doubts, it is clarified that even if a very small proportion of the activities of an entity was considered to be commercial, industrial or business in nature, then it could not claim exemption from the application of Accounting Standards. The Accounting Standards would apply to all its activities including those which were not commercial, industrial or business in nature.

IX. Applicability of Accounting Standard 11, *Accounting for the Effects of Changes in Foreign Exchange Rates* to Authorised Foreign Exchange Dealers[49]

Accounting Standard (AS) 11, *Accounting for the Effects of Changes in Foreign Exchange Rates,* as revised in 1995[50], deals with accounting for foreign currency transactions and translation of financial statements of foreign branches. It is hereby clarified that the above Standard is not applicable to forward exchange transactions which are entered into by authorised foreign exchange dealers, in view of the fact that the nature of such transactions has certain special features which need to be addressed specifically.[51] The standard shall, however, apply to translation of financial statements of foreign branches of the foreign exchange dealers.

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[49] Published in 'The Chartered Accountant', April, 1999 (pages 78-79).

[50] This Standard was revised in December, 1994 and published in January, 1995, issue of 'The Chartered Accountant'. This Standard has again been revised in 2003 and titled as 'The Effects of Changes in Foreign Exchange Rates', (published in March, 2003, issue of 'The Chartered Accountant'). The revised AS 11(2003) comes into effect in respect of accounting periods commencing on or after 1-4-2004 and is mandatory in nature from that date. The revised Standard supersedes AS 11 (1994), except that in respect of accounting for transactions in foreign currencies entered into by the reporting enterprise itself or through its branches before the date the revised AS 11 (2003) comes into effect, AS 11 (1994) continues to be applicable. See also Announcements XVIII, XXII, XXXI, XXXII and XXXIII.

[51] It may be noted that revised AS 11 (2003) addresses the matter specifically and, accordingly, this Announcement is not relevant to revised AS 11 (2003). See also Announcements XVIII, XXII, XXXI, XXXII and XXXIII.

X. Accounting Standard (AS) 3, Cash Flow Statements, Made Mandatory[52]

The Council, at its 211th meeting, held on September 11-13, 2000, considered the matter relating to making Accounting Standard (AS) 3, Cash Flow Statements, mandatory. The Council decided that AS 3 will be mandatory in nature in respect of accounting periods commencing on or after 1.4.2001 for the following:

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

XI. Applicability of Accounting Standard (AS) 20, Earnings Per Share[53]

Accounting Standard (AS) 20, 'Earnings Per Share', issued by the Council of the Institute of Chartered Accountants of India, has come into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature, from that date, in respect of enterprises whose equity shares or potential equity shares are listed on a recognised stock exchange in India.

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[52] Published in 'The Chartered Accountant', December 2000, (page 65). It may be noted that the Council, at its 236th meeting, held on September 16-18, 2003, considered the matter relating to applicability of Accounting Standards to Small and Medium Sized Enterprises. As a part of this, the Council decided that Accounting Standard (AS) 3 will not be applicable to Level II and Level III enterprises in its entirety in respect of accounting periods commencing on or after 1-4-2004. Accordingly, this Announcement is not relevant in respect of accounting periods commencing on or after 1-4-2004. See 'Applicability of Accounting Standards' (reproduced as Announcement XVII).

[53] Published in 'The Chartered Accountant', March 2002 (page 1163). Subsequently, this clarification has been numbered as General Clarification (GC)-1/2002 (see 'The Chartered Accountant', June 2002, page 1507). Subsequently, this GC was converted into Accounting Standards Interpretation (ASI) 12 (see 'The Chartered Accountant', March 2004, page 952). ASI 12 is published elsewhere in this Compendium.

AS 20 does not mandate an enterprise, which has neither equity shares nor potential equity shares which are so listed, to calculate and disclose earnings per share, but, if that enterprise discloses earnings per share for complying with the requirements of any statute or otherwise, it should calculate and disclose earnings per share in accordance with AS 20.

Part IV of the Schedule VI to the Companies Act, 1956, requires, among other things, disclosure of earnings per share.

Accordingly, it is hereby clarified that every company, which is required to give information under Part IV of the Schedule VI to the Companies Act, 1956, should calculate and disclose earnings per share in accordance with AS 20, whether its equity shares or potential equity shares are listed on a recognised stock exchange in India or not.

XII. Applicability of Accounting Standard (AS) 18, Related Party Disclosures[54]

The Institute has issued Accounting Standard (AS) 18, Related Party Disclosures (published in the October 2000, issue of the Institute's Journal 'The Chartered Accountant'). AS 18 has come into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature for all enterprises.

The Council, at its 224th meeting, held on March 8-10, 2002, reconsidered the applicability of AS 18. The Council decided to make AS 18 mandatory only to the following enterprises and not to all enterprises as at present:

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

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[54] Published in 'The Chartered Accountant', April 2002 (page 1242). The Council, at its 236th meeting, held on September 16-18, 2003, considered the matter relating to applicability of Accounting Standards to Small and Medium Sized Enterprises. As a part of this, the Council decided that AS 18 will not apply to Level II and Level III enterprises in its entirety in respect of accounting periods commencing on or after 1.4.2004. Accordingly, this Announcement is not relevant in respect of accounting periods commencing on or after 1-4-2004. See 'Applicability of Accounting Standards' (reproduced as Announcement XVII).

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

XIII. Clarification on Status of Accounting Standards and Guidance Notes[55]

In a situation where certain matters are covered both by an Accounting Standard and a Guidance Note, issued by the Institute of Chartered Accountants of India, the Guidance Note or the relevant portion thereof will be considered as superseded from the date of the relevant Accounting Standard coming into effect, unless otherwise specified in the Accounting Standard.

Similarly, in a situation where certain matters are covered by a recommendatory Accounting Standard and subsequently, an Accounting Standard is issued which also covers those matters, the recommendatory Accounting Standard or the relevant portion thereof will be considered as superseded from the date of the new Accounting Standard coming into effect, unless otherwise specified in the new Accounting Standard.

In a situation where certain matters are covered by a mandatory Accounting Standard and subsequently, an Accounting Standard is issued which also covers those matters, the earlier Accounting Standard or the relevant portion thereof will be considered as superseded from the date of the new Accounting Standard becoming mandatory, unless otherwise specified in the new Accounting Standard.

XIV. Accounting Standard (AS) 24, Discontinuing Operations[56]

Accounting Standard (AS) 24, Discontinuing Operations, was issued in

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[55] Published in 'The Chartered Accountant', April 2002 (page 1242).

[56] Published in 'The Chartered Accountant', May, 2002 (page 1378). The Council, at its 236th meeting, held on September 16-18, 2003, considered the matter relating to applicability of Accounting Standards to Small and Medium Sized Enterprises. As a part of this, the Council decided that Accounting Standard (AS) 24 will not be applicable to Level II and Level III enterprises in its entirety in respect of accounting periods commencing on or after 1-4-2004 (see 'Applicability of Accounting Standards' (reproduced as Announcement XVII)). Accordingly, this Announcement is no longer relevant.

February 2002 as a recommendatory Accounting Standard. The Council, at its 224th meeting, held on March 8-10, 2002, decided that AS 24 would be mandatory in nature in respect of accounting periods commencing on or after 1-4-2004 for the following:

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

In respect of all other enterprises, the Accounting Standard would be mandatory in nature in respect of accounting periods commencing on or after 1-4-2005. Earlier application of the accounting standard would be encouraged.

XV. Accounting Standards Specified by the Institute of Chartered Accountants of India under Section 211 of the Companies Act, 1956

(In respect of 'specified' status of Accounting Standards under the Companies Act, 1956, announcements have been made from time to time. The current status of the Accounting Standards for the purposes of the Companies Act, 1956, has been included in the Announcement made by the Council specifying Accounting Standard (AS) 3, Cash Flow Statements, for the purposes of the Companies Act, 1956. The text of the Announcement (published in October 2002 issue of 'The Chartered Accountant', page 457) is reproduced below.)

1. Section 211 of the Companies Act, 1956, as amended by the Companies (Amendment) Act, 1999, requires that every profit and loss account and balance sheet of the company shall comply with the accounting standards. For the purpose of Section 211, the expression "accounting standards" means the standards of accounting recommended by the Institute of Chartered Accountants of India as may be prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards

established under sub-section (1) of section 210A of the said Act. Provided that the standards of accounting specified by the Institute of Chartered Accountants of India shall be deemed to be the Accounting Standards until the accounting standards are prescribed by the Central Government under section 211 (3C) of the Act.

2. Accounting Standard (AS) 3, Cash Flow Statements[57], was made mandatory in respect of accounting periods commencing on or after 1.4.2001 for the following:

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores. (Announcement published in December 2000 issue of the Institute's Journal.)

3. The Council, at its meeting held in September 2002, decided that AS 3 should also be treated as a **'**specified**'** accounting standard for the purpose of section 211 of the Act. Accordingly, the companies in respect of which AS 3 is mandatory, are required to comply with AS 3 under section 211 of the Companies Act, 1956. In view of this, the statutory auditors of such companies are required to give an assertion in respect of compliance with AS 3 along with other **'**specified**'** accounting standards while reporting under section 227 (3)(d) of the Act.

The Council decided that the above position in respect of **'**specified**'** status of AS 3 is applicable in respect of accounting periods commencing on or after 1-4-2002.

4. Accordingly, in view of the announcements published in the

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[57] The Council, at its 236th meeting, held on September 16-18, 2003, considered the matter relating to applicability of Accounting Standards to Small and Medium Sized Enterprises. As a part of this, the Council decided that Accounting Standard (AS) 3 will not be applicable to Level II and Level III enterprises in its entirety in respect of accounting periods commencing on or after 1-4-2004. See 'Applicability of Accounting Standards' (reproduced hereafter as Announcement XVII).

Institute's Journal from time to time, in respect of 'specified' status of Accounting Standards, read with this announcement, the extant position is that all the accounting standards, issued by the Institute which have been made mandatory by the Institute as indicated in the respective standards or made mandatory by way of a separate announcement are 'specified' for the purpose of the proviso to section 211 (3C) and section 227 (3)(d) of the Act.

XVI. Applicability of Accounting Standards to Co-operative Societies[58]

The following is the General Clarification (GC) - 12/2002, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, on applicability of Accounting Standards to co-operative societies:

Paragraph 3.3 of the 'Preface to the Statements of Accounting Standards'[59] provides, inter alia, as below:

> "3.3 The Institute will issue the Accounting Standards for use in the presentation of the general purpose financial statements issued to the public by such commercial, industrial or business enterprises as may be specified by the Institute from time to time and subject to the attest function of its members."

In view of the above, the accounting standards issued by the Institute shall apply in respect of financial statements of co-operative societies, which carry on commercial, industrial or business activities, and are subject to the attest function of the members of the Institute. The Accounting Standards made mandatory by the Institute, as specified in the respective standards or made mandatory by separate announcements, are also mandatory in respect of co-operative societies.

For the removal of doubts, it is clarified that even if a very small proportion

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[58] Published in October 2002 issue of 'The Chartered Accountant', pp. 313, as General Clarification (GC) - 12/2002.
With the issuance of the Preface to the Statements of Accounting Standards (revised 2004), this Announcement (GC-12/2002) stands superseded.

[59] With the issuance of the Preface to the Statements of Accounting Standards (revised 2004), the Preface to the Statements of Accounting Standards, issued in January, 1979, stands superseded.

of the activities of a co-operative society is considered to be commercial, industrial or business in nature, then it can not claim exemption from the application of Accounting Standards. The Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature.

It is reiterated that mandatory status of an accounting standard implies that it will be the duty of the members of the Institute to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations.

XVII. APPLICABILITY OF ACCOUNTING STANDARDS[60]

The Council, at its 236th meeting, held on September 16-18, 2003, considered the matter relating to applicability of Accounting Standards to Small and Medium Sized Enterprises (SMEs). The Council decided the following scheme for applicability of accounting standards to SMEs. This scheme comes into effect in respect of accounting periods commencing on or after 1-4-2004.

1. For the purpose of applicability of Accounting Standards, enterprises are classified into three categories, viz., Level I, Level II and Level III. Level II and Level III enterprises are considered as SMEs. The criteria for different levels are given in Annexure I.

2. Level I enterprises are required to comply fully with all the accounting standards.

3. It has been decided that no relaxation should be given to Level II and Level III enterprises in respect of recognition and measurement principles. Relaxations are provided with regard to disclosure requirements. Accordingly, Level II and Level III enterprises are fully exempted from certain accounting

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[60] Published in 'The Chartered Accountant', November 2003 (pp. 480-489). It may be noted that, subsequently, the Announcement was partially modified pursuant to a limited revision to AS 20, Earnings Per Share (published in 'The Chartered Accountant', Feb. 2004 (pp. 817-818)). This Announcement incorporates the consequent modifications.

standards which primarily lay down disclosure requirements. In respect of certain other accounting standards, which lay down recognition, measurement and disclosure requirements, relaxations from certain disclosure requirements are given. The exemptions/relaxations are decided to be provided by modifying the applicability portion of the relevant accounting standards. Modifications in the relevant existing accounting standards are given in Annexure II.

4. Applicability of Accounting Standards and exemptions/ relaxations for SMEs

So far, the Institute has issued 29 accounting standards. The applicability of the accounting standards and exemptions/relaxations for SMEs are as follows:

I. Accounting Standards applicable to all enterprises in their entirety (Levels I, II and III)

(i) AS 1, Disclosure of Accounting Policies

(ii) AS 2, Valuation of Inventories

(iii) AS 4, Contingencies and Events Occurring After the Balance Sheet Date

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

(v) AS 6, Depreciation Accounting

(vi) AS 7 (revised 2002), Construction Contracts[61]

AS 7 (issued 1983), Accounting for Construction Contracts

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[61] The revised AS 7 (2002) came into effect in respect of all contracts entered into during accounting periods commencing on or after 1-4-2003 and is mandatory in nature from that date. Accordingly, the pre-revised AS 7 (issued 1983) is not applicable in respect of such contracts.

(vii) AS 8, Accounting for Research and Development[62]

(viii) AS 9, Revenue Recognition

(ix) AS 10, Accounting for Fixed Assets

(x) AS 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates[63]

AS 11 (revised 1994), Accounting for the Effects of Changes in Foreign Exchange Rates

(xi) AS 12, Accounting for Government Grants

(xii) AS 13, Accounting for Investments

(xiii) AS 14, Accounting for Amalgamations

(xiv) AS 15, Accounting for Retirement Benefits in the Financial Statements of Employers[64]

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[62] AS 8 is withdrawn from the date AS 26, Intangible Assets, becoming mandatory for the concerned enterprises. AS 26 is mandatory in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2003 for the following:

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

In respect of all other enterprises, AS 26 is mandatory in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2004.

[63] The revised AS 11 (2003) has come into effect in respect of accounting periods commencing on or after 1-4-2004 and is mandatory in nature from that date. The revised Standard (2003) supersedes AS 11 (1994), except that in respect of accounting for transactions in foreign currencies entered into by the reporting enterprise itself or through its branches before the date the revised AS 11 (2003) came into effect, AS 11 (1994) continues to be applicable. See also Announcements XVIII and XXII reproduced hereafter.

[64] AS 15 (issued 1995) has been revised in 2005 and titled as 'Employee Benefits'. Subsequently, a limited revision has also been made to AS 15 (revised 2005). AS 15 (revised 2005), after incorporating the said Limited Revision, comes into effect in respect of accounting periods commencing on or after 01.04.2006. In AS 15 (revised 2005), certain exemptions/ relaxations from recognition, measurement and disclosure requirements have been provided to Level II and Level III enterprises. AS 15 (issued 1995) as well as AS 15 (revised 2005) are published elsewhere in this Compendium.

(xv) AS 16, Borrowing Costs

(xvi) AS 22, Accounting for Taxes on Income[65]

(xvii) AS 26, Intangible Assets

II. Exemptions/Relaxations for SMEs

(A) Accounting Standards not applicable to Level II and Level III enterprises in their entirety:

(i) AS 3, Cash Flow Statements

(ii) AS 17, Segment Reporting

(iii) AS 18, Related Party Disclosures

(iv) AS 24, Discontinuing Operations.

(B) Accounting Standards not applicable to Level II and Level III enterprises since the relevant Regulators require compliance with them only by certain Level I enterprises[66]:

(i) AS 21, Consolidated Financial Statements

(ii) AS 23, Accounting for Investments in Associates in Consolidated Financial Statements

(iii) AS 27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to consolidated financial statements)

(C) Accounting Standards in respect of which relaxations from certain disclosure requirements have been given to Level II and Level III enterprises:

(i) AS 19, Leases

Paragraphs 22(c), (e) and (f); 25(a), (b) and (e); 37(a), (f) and

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[65] See Announcement XXI also.

[66] AS 21, AS 23 and AS 27 (relating to consolidated financial statements) are required to be complied with by an enterprise if the enterprise, pursuant to the requirements of a statute/regulator or voluntarily, prepares and presents consolidated financial statements.

(g); and 46(b), (d) and (e), of AS 19 are not applicable to Level II and Level III enterprises.

(ii) AS 20, Earnings Per Share

As regards AS 20, diluted earnings per share (both including and excluding extraordinary items) and information required by paragraph 48 (ii) of AS 20 are not required to be disclosed by Level II and Level III enterprises if this standard is applicable to these enterprises because they disclose earnings per share. So far as companies are concerned, since all the companies are required to apply AS 20 by virtue of the provisions of Part IV of Schedule VI to the Companies Act, 1956, requiring disclosure of earnings per share, the position is that the companies which do not fall in Level I, would not be required to disclose diluted earnings per share (both including and excluding extraordinary items) and information required by paragraph 48 (ii) of AS 20.

(iii) AS 29, Provisions, Contingent Liabilities and Contingent Assets

- Paragraph 67 is not applicable to Level II enterprises
- Paragraphs 66 and 67 are not applicable to Level III enterprises

The above relaxations are incorporated in AS 29 itself.

(D) *Accounting Standard applicability of which is deferred for Level II and Level III enterprises:*

AS 28, Impairment of Assets [67]

- For Level I Enterprises applicable from 1-4-2004
- For Level II Enterprises applicable from 1-4-2006
- For Level III Enterprises applicable from 1-4-2008

(E) AS 25, Interim Financial Reporting, does not require any enterprise to present interim financial report. It is applicable only if an enterprise is required or elects to prepare and present an interim financial report. However, the recognition and measurement

[67]Subsequently, the Council of the Institute has decided to provide relaxations from measurement principles contained in AS 28, *Impairment of Assets*, to Level II and Level III enterprises. For full text of the Announcement issued in this regard, reference may be made to Announcement XXIX published hereinafter.

requirements contained in this Standard are applicable to interim financial results, e.g., quarterly financial results required by the SEBI.

At present, in India, enterprises are not required to present interim financial report within the meaning of AS 25. Therefore, no enterprise in India is required to comply with the disclosure and presentation requirements of AS 25 unless it voluntarily presents interim financial report within the meaning of AS 25. The recognition and measurement principles contained in AS 25 are also applicable only to certain Level I enterprises since only these enterprises are required by the concerned regulators to present interim financial results.

In view of the above, at present, AS 25 is not mandatorily applicable to Level II and Level III enterprises in any case.

5. An enterprise which does not disclose certain information pursuant to the above exemptions/relaxations, should disclose the fact.

6. Where an enterprise has previously qualified for any exemption/ relaxation (being under Level II or Level III), but no longer qualifies for the relevant exemption/relaxation in the current accounting period, the relevant standards/requirements become applicable from the current period. However, the corresponding previous period figures need not be disclosed.

7. Where an enterprise has been covered in Level I and subsequently, ceases to be so covered, the enterprise will not qualify for exemption/ relaxation available to Level II enterprises, until the enterprise ceases to be covered in Level I for two consecutive years. Similar is the case in respect of an enterprise, which has been covered in Level I or Level II and subsequently, gets covered under Level III.

Annexure I

Criteria for classification of enterprises

Level I Enterprises

Enterprises which fall in any one or more of the following categories, at any time during the accounting period, are classified as Level I enterprises:

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.

(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.

(iii) Banks including co-operative banks.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.[68]

Level II Enterprises

Enterprises which are not Level I enterprises but fall in any one or more of the following categories are classified as Level II enterprises:

(i) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 40 lakhs but does not exceed Rs. 50 crore. Turnover does not include 'other income'.

(ii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 1 crore but not in excess of Rs. 10 crore at any time during the accounting period.

(iii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

Level III Enterprises

Enterprises which are not covered under Level I and Level II are considered as Level III enterprises.

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[68] The Institute has issued an Announcement in 2005 titled 'Applicability of Accounting Standards to an Unlisted Indian Company, which is a Subsidiary of a Foreign Company Listed Outside India' (published in 'The Chartered Accountant', August 2005 (pp. 338-339)). For full text of the Announcement, reference may be made to Announcement XXVII published hereinafter.

Annexure II

Modifications in the relevant existing accounting standards to address the matter relating to Small and Medium Sized enterprises

Note: Modifications are indicated as strike-throughs for deletions and as underlines for additions.

1. Modifications in AS 3, Cash Flow Statements

The 'applicability' paragraphs of AS 3 stand modified as under:

"~~The following is the text of the revised Accounting Standard (AS) 3, 'Cash Flow Statements', issued by the Council of the Institute of Chartered Accountants of India. This Standard supersedes Accounting Standard (AS) 3, 'Changes in Financial Position', issued in June, 1981.~~

~~In the initial years, this accounting standard will be recommendatory in character. During this period, this standard is recommended for use by companies listed on a recognised stock exchange and other commercial, industrial and business enterprises in the public and private sectors.~~

Accounting Standard (AS) 3, 'Cash Flow Statements' (revised 1997), issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-1997. This Standard supersedes Accounting Standard (AS) 3, 'Changes in Financial Position', issued in June 1981. This Standard is mandatory in nature in respect of accounting periods commencing on or after 1-4-2004[69] for the enterprises which fall in any one or more of the following categories, at any time during the accounting period:

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[69] AS 3 was originally made mandatory in respect of accounting periods commencing on or after 1-4-2001, for the following:

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

The relevant announcement was published in 'The Chartered Accountant', December 2000, page 65.

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.

(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.

(iii) Banks including co-operative banks.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

The enterprises which do not fall in any of the above categories are encouraged, but are not required, to apply this Standard.

Where an enterprise has been covered in any one or more of the above categories and subsequently, ceases to be so covered, the enterprise will not qualify for exemption from application of this Standard, until the enterprise ceases to be covered in any of the above categories for two consecutive years.

Where an enterprise has previously qualified for exemption from application of this Standard (being not covered by any of the above categories) but no longer qualifies for exemption in the current accounting period, this Standard becomes applicable from the current period. However, the corresponding previous period figures need not be disclosed.

An enterprise, which, pursuant to the above provisions, does not present a cash flow statement, should disclose the fact.

The following is the text of the Accounting Standard."

The above modifications come into effect in respect of accounting periods commencing on or after 1-4-2004. Accordingly, the announcement issued by the Council titled as 'Accounting Standard (AS) 3, Cash Flow Statements Made Mandatory', published in the December 2000 issue of the Institute's Journal (page 65) stands withdrawn in respect of accounting periods commencing on or after 1-4-2004.

2. Modifications in AS 17, Segment Reporting

The 'applicability' paragraph of AS 17 stands modified as under:

"~~The following is the text of~~ Accounting Standard (AS) 17, 'Segment Reporting', issued by the Council of the Institute of Chartered Accountants of India,~~. This Standard~~ comes into effect in respect of accounting periods commencing on or after 1.4.2001. ~~and is mandatory in nature, from that date, in respect of the following:~~

~~(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.~~

~~(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.~~

This Standard is mandatory in nature in respect of accounting periods commencing on or after 1-4-2004[70] for the enterprises which fall in any one or more of the following categories, at any time during the accounting period:

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[70] AS 17 was originally made mandatory in respect of accounting periods commencing on or after 1-4-2001 for the following enterprises:

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.

(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.

(iii) Banks including co-operative banks.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

The enterprises which do not fall in any of the above categories are not required to apply this Standard.

Where an enterprise has been covered in any one or more of the above categories and subsequently, ceases to be so covered, the enterprise will not qualify for exemption from application of this Standard, until the enterprise ceases to be covered in any of the above categories for two consecutive years.

Where an enterprise has previously qualified for exemption from application of this Standard (being not covered by any of the above categories) but no longer qualifies for exemption in the current accounting period, this Standard becomes applicable from the current period. However, the corresponding previous period figures need not be disclosed.

An enterprise, which, pursuant to the above provisions, does not disclose segment information, should disclose the fact.

The following is the text of the Accounting Standard."

The above modifications come into effect in respect of accounting periods commencing on or after 1-4-2004.

3. Modifications in AS 18, Related Party Disclosures

The 'applicability' paragraph of AS 18 stands modified as under:

"~~The following is the text of Accounting Standard (AS) 18, 'Related Party Disclosures', issued by the Council of the Institute of Chartered Accountants of India. This Standard comes into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature.~~

Accounting Standard (AS) 18, 'Related Party Disclosures', issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2001. This Standard is mandatory in nature in respect of accounting periods commencing on or after 1-4-2004[71] for the enterprises which fall in any one or more of the following categories, at any time during the accounting period:

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.

(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.

(iii) Banks including co-operative banks.

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[71] AS 18 was earlier made mandatory in respect of accounting periods commencing on or after 1-4-2001 only for the following enterprises:

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

The relevant announcement was published in 'The Chartered Accountant', April 2002, page 1242.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

The enterprises which do not fall in any of the above categories are not required to apply this Standard.

Where an enterprise has been covered in any one or more of the above categories and subsequently, ceases to be so covered, the enterprise will not qualify for exemption from application of this Standard, until the enterprise ceases to be covered in any of the above categories for two consecutive years.

Where an enterprise has previously qualified for exemption from application of this Standard (being not covered by any of the above categories) but no longer qualifies for exemption in the current accounting period, this Standard becomes applicable from the current period. However, the corresponding previous period figures need not be disclosed.

An enterprise, which, pursuant to the above provisions, does not make related party disclosures, should disclose the fact.

The following is the text of the Accounting Standard."

The above modifications come into effect in respect of accounting periods commencing on or after 1-4-2004. Accordingly, the announcement issued by the Council titled as 'Applicability of Accounting Standard (AS) 18, Related Party Disclosures', published in the April 2002 issue of the Institute's Journal (page 1242) stands withdrawn in respect of accounting periods commencing on or after 1-4-2004.

4. Modifications in AS 19, Leases

The ‘applicability’ paragraph of AS 19 stands modified as under:

“~~The following is the text of~~ Accounting Standard (AS) 19, ‘Leases’, issued by the Council of the Institute of Chartered Accountants of India,~~.~~ ~~This Standard~~ comes into effect in respect of all assets leased during accounting periods commencing on or after 1.4.2001 and is mandatory in nature from that date. Accordingly, the ‘Guidance Note on Accounting for Leases’ issued by the Institute in 1995, is not applicable in respect of such assets. Earlier application of this Standard is, however, encouraged.

In respect of accounting periods commencing on or after 1-4-2004[72] , an enterprise which does not fall in any of the following categories need not disclose the information required by paragraphs 22(c), (e) and (f); 25(a), (b) and (e); 37(a), (f) and (g); and 46(b), (d) and (e), of this Standard:

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.

(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors’ resolution in this regard.

(iii) Banks including co-operative banks.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include ‘other income’.

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.

[72] AS 19 was originally made mandatory, in its entirety, for all enterprises in respect of all assets leased during accounting periods commencing on or after 1-4-2001.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

In respect of an enterprise which falls in any one or more of the above categories, at any time during the accounting period, the Standard is applicable in its entirety.

Where an enterprise has been covered in any one or more of the above categories and subsequently, ceases to be so covered, the enterprise will not qualify for exemption from paragraphs 22(c), (e) and (f); 25(a), (b) and (e); 37(a), (f) and (g); and 46(b), (d) and (e), of this Standard, until the enterprise ceases to be covered in any of the above categories for two consecutive years.

Where an enterprise has previously qualified for exemption from paragraphs 22(c), (e) and (f); 25(a), (b) and (e); 37(a), (f) and (g); and 46(b), (d) and (e), of this Standard (being not covered by any of the above categories) but no longer qualifies for exemption in the current accounting period, this Standard becomes applicable, in its entirety, from the current period. However, the corresponding previous period figures in respect of above paragraphs need not be disclosed.

An enterprise, which, pursuant to the above provisions, does not disclose the information required by paragraphs 22(c), (e) and (f); 25(a), (b) and (e); 37(a), (f) and (g); and 46(b), (d) and (e) should disclose the fact.

The following is the text of the Accounting Standard."

The above modifications come into effect in respect of accounting periods commencing on or after 1-4-2004.

5. Modifications in AS 20, Earnings Per Share

The 'applicability' paragraph of AS 20 stands modified as under:

"Accounting Standard (AS) 20, 'Earnings Per Share', issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature, from that date, in respect of enterprises whose equity shares or potential equity shares are listed on a recognised stock exchange in India.

An enterprise which has neither equity shares nor potential equity shares which are so listed but which discloses earnings per share, should calculate and disclose earnings per share in accordance with this Standard from the aforesaid date. ~~The following is the text of the Accounting Standard.~~ However, in respect of accounting periods commencing on or after 1-4-2004, if any such enterprise does not fall in any of the following categories, it need not disclose diluted earnings per share (both including and excluding extraordinary items) and information required by paragraph 48 (ii) of this Standard[73]:

(i) Enterprises whose equity securities or potential equity securities are listed outside India and enterprises whose debt securities (other than potential equity securities) are listed whether in India or outside India.

(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.

(iii) Banks including co-operative banks.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.

[73]Originally, no exemption was available to an enterprise, which had neither equity shares nor potential equity shares which were listed on a recognised stock exchange in India, but which disclosed earnings per share. It is clarified that no exemption is available even in respect of accounting periods commencing on or after 1-4-2004 to enterprises whose equity shares or potential equity shares are listed on a recognised stock exchange in India. It is also clarified that this Standard is not applicable to an enterprise which has neither equity shares nor potential equity shares which are listed on a recognised stock exchange in India and which also does not disclose earnings per share.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

Where an enterprise (which has neither equity shares nor potential equity shares which are listed on a recognised stock exchange in India but which discloses earnings per share) has been covered in any one or more of the above categories and subsequently, ceases to be so covered, the enterprise will not qualify for exemption from the disclosure of diluted earnings per share (both including and excluding extraordinary items) and paragraph 48 (ii) of this Standard, until the enterprise ceases to be covered in any of the above categories for two consecutive years.

Where an enterprise (which has neither equity shares nor potential equity shares which are listed on a recognised stock exchange in India but which discloses earnings per share) has previously qualified for exemption from the disclosure of diluted earnings per share (both including and excluding extraordinary items) and paragraph 48 (ii) of this Standard (being not covered by any of the above categories) but no longer qualifies for exemption in the current accounting period, this Standard becomes applicable, in its entirety, from the current period. However, the relevant corresponding previous period figures need not be disclosed.

If an enterprise (which has neither equity shares nor potential equity shares which are listed on a recognised stock exchange in India but which discloses earnings per share), pursuant to the above provisions, does not disclose the diluted earnings per share (both including and excluding extraordinary items) and information required by paragraph 48 (ii), it should disclose the fact.

The following is the text of the Accounting Standard."

The above modifications come into effect in respect of accounting periods commencing on or after 1-4-2004.

6. Modifications in AS 24, Discontinuing Operations

The 'applicability' paragraph of AS 24 stands modified as under:

"Accounting Standard (AS) 24, 'Discontinuing Operations', issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2004.

~~is recommendatory in nature at present. The following is the text of the Accounting Standard.~~ This Standard is mandatory in nature in respect of accounting periods commencing on or after 1-4-2004[74] for the enterprises which fall in any one or more of the following categories, at any time during the accounting period:

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.

(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.

(iii) Banks including co-operative banks.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

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[74] It was originally decided to make AS 24 mandatory in respect of accounting periods commencing on or after 1-4-2004 for the following:

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

In respect of all other enterprises, it was originally decided to make the Standard mandatory in respect of accounting periods commencing on or after 1-4-2005.

The relevant announcement was published in 'The Chartered Accountant', May 2002, page 1378.

Earlier application is encouraged.

The enterprises which do not fall in any of the above categories are not required to apply this Standard.

Where an enterprise has been covered in any one or more of the above categories and subsequently, ceases to be so covered, the enterprise will not qualify for exemption from application of this Standard, until the enterprise ceases to be covered in any of the above categories for two consecutive years.

Where an enterprise has previously qualified for exemption from application of this Standard (being not covered by any of the above categories) but no longer qualifies for exemption in the current accounting period, this Standard becomes applicable from the current period. However, the corresponding previous period figures need not be disclosed.

An enterprise, which, pursuant to the above provisions, does not present the information relating to the discontinuing operations, should disclose the fact.

The following is the text of the Accounting Standard."

The above modifications come into effect in respect of accounting periods commencing on or after 1-4-2004. Accordingly, the announcement issued by the Council titled as 'Accounting Standard (AS) 24, Discontinuing Operations', published in the May 2002 issue of the Institute's Journal (page 1378) stands withdrawn in respect of accounting periods commencing on or after 1-4-2004.

7. Modifications in AS 28, Impairment of Assets[75]

The 'applicability' paragraphs of AS 28 stand modified as under:

[75]With a view to provide relaxations from measurement principles contained in AS 28, *Impairment of Assets*, to Small and Medium-sized Enterprises (SMEs), the Council of the Institute has issued an Announcement titled 'Applicability of Accounting Standard (AS) 28, Impairment of Assets, to Small and Medium Sized Enterprises (SMEs)' (published in 'The Chartered Accountant', November 2005 (pp. 777-778)). For full text of the Announcement, reference may be made to Announcement XXIX published hereinafter.

"Accounting Standard (AS) 28, 'Impairment of Assets', issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2004. ~~and is mandatory in nature from that date for the following:~~

This Standard is mandatory in nature in respect of accounting periods commencing on or after:

(a) 1-4-2004[76], for the enterprises, which fall in any one or more of the following categories, at any time during the accounting period:

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.

(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.

(iii) Banks including co-operative banks.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.

(vii) All commercial, industrial and business reporting enterprises having borrowings including public deposits, in excess of Rs. 10 crore at any time during the accounting period.

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[76] It was originally decided to make AS 28 mandatory in respect of accounting periods commencing on or after 1-4-2004 for the following:

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

In respect of all other enterprises, it was originally decided to make AS 28 mandatory in respect of accounting periods commencing on or after 1-4-2005.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

(b) 1-4-2006[77], for the enterprises which do not fall in any of the categories in (a) above but fall in any one or more of the following categories:

(i) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 40 lakhs but does not exceed Rs. 50 crore. Turnover does not include 'other income'.

(ii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 1 crore but not in excess of Rs. 10 crore at any time during the accounting period.

(iii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

(c) 1-4-2008[78], for the enterprises, which do not fall in any of the categories in (a) and (b) above.

~~(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.~~

~~(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.~~

~~In respect of all other enterprises, the Accounting Standard comes into effect in respect of accounting periods commencing on or after 1-4-2005 and is mandatory in nature from that date.~~

Earlier application of the Accounting Standard is encouraged.

The following is the text of the Accounting Standard."

The above modifications come into effect in respect of accounting periods commencing on or after 1-4-2004.

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[77] *ibid*.

[78] *ibid*.

Note: In all the above modifications, the footnote clarifying the implications of 'mandatory' status of an accounting standard, will continue to appear whenever the word 'mandatory' is used for the first time as it presently appears in the respective standards.

XVIII. Treatment of exchange differences under Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates vis-à-vis Schedule VI to the Companies Act, 1956[79]

1. The revised Accounting Standard (AS) 11, The Effects of Changes in Foreign Exchange Rates, was published in the March 2003 issue of the Institute's Journal, 'The Chartered Accountant', (pp. 916 to 922). Revised AS 11 will come into effect in respect of accounting periods commencing on or after 1-4-2004 and is mandatory in nature from that date. The revised Standard will supersede Accounting Standard (AS) 11, Accounting for the Effects of Changes in Foreign Exchange Rates (1994), except that in respect of accounting for transactions in foreign currencies entered into by the reporting enterprise itself or through its branches before the date this Standard comes into effect, AS 11 (1994) will continue to be applicable.

2. In this context, it may be noted that Schedule VI to the Companies Act, 1956, provides, inter alia, that where the original cost and additions and deductions thereto, relate to any fixed asset which has been acquired from a country outside India, and in consequence of a change in the rate of exchange at any time after the acquisition of such asset, there has been an increase or reduction in the liability of the company, as expressed in Indian currency, for making payment towards the whole or a part of the cost of the asset or for repayment of the whole or a part of moneys borrowed by the company from any person, directly or indirectly, in any foreign currency specifically for the purpose of acquiring the assets (being in either case the liability existing immediately before the date on which the change in the rate of exchange takes effect), the amount by which the liability is so increased or reduced during the year, shall be added to, or, as the case may be, deducted from the cost, and the amount arrived at after such addition or deduction shall be taken to be the cost of the fixed asset.

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[79] Published in 'The Chartered Accountant', November 2003 (pp. 497).

3. The revised AS 11 (2003), however, does not require the adjustment of exchange differences in the carrying amount of the fixed assets, in the situations envisaged in Schedule VI to the Companies Act, 1956 (see para 13 of revised AS 11). As per revised AS 11 (2003), such exchange differences are required to be recognised in the statement of profit and loss since it is felt that this treatment is conceptually preferable to that required in Schedule VI and is in consonance with the international position in this regard.

4. It may be mentioned that the Institute has decided to take up this aspect with the Government to consider the same in the revision of Schedule VI to the Companies Act, 1956. It may be noted that where a requirement of an accounting standard is different from the applicable law, the law prevails. Accordingly, a requirement of an accounting standard is not applicable to the extent it is in conflict with the requirement of the relevant law. Thus, pending the amendment, if any, to Schedule VI to the Companies Act, 1956, in respect of the matter, a company adopting the treatment described in paragraph 2 above will still be considered to be complying with AS 11 for the purposes of section 211 of the Act. Accordingly, the auditor of the company should not assert non-compliance with AS 11 (2003) under section 227(3)(d) of the Act in such a case and should not qualify his report in this regard on the true and fair view of the state of the company's affairs and profit or loss of the company under section 227(2) of the Act.

XIX. Applicability of Accounting Standard (AS) 26, Intangible Assets, to intangible items[80]

1. Accounting Standard (AS) 26, 'Intangible Assets', came into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2003 and is mandatory in nature from that date for the following:

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[80] Published in 'The Chartered Accountant', November 2003 (pp. 479). It may be noted that pursuant to a limited revision to AS 26, Intangible Assets, effective in respect of accounting periods commencing on or after 1-4-2003, this Announcement stands superseded to the extent it deals with VRS expenditure, from the aforesaid date (see 'The Chartered Accountant', April 2004 (pp. 1157)).

AS 15 (revised 2005), *inter alia*, deals with treatment of VRS expenditure. AS 15 (revised 2005) comes into effect in respect of accounting periods commencing on or after 01.04.2006. The said Standard is published elsewhere in this Compendium.

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

In respect of all other enterprises, the Accounting Standard will come into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2004 and will be mandatory in nature from that date.

2. An issue has been raised as to what should be the treatment of the expenditure incurred on intangible items, which were treated as deferred revenue expenditure and ordinarily spread over a period of 3 to 5 years before AS 26 became mandatory and which do not meet the definition of an 'asset' as per AS 26. The examples of such items are expenditure incurred in respect of lump sum payment towards a Voluntary Retirement Scheme (VRS), preliminary expenses etc. In this context, it is clarified as below:

(i) The expenditure incurred on intangible items (referred to in paragraph 2 above) after the date AS 26 became/becomes mandatory (1-4-2003 or 1-4-2004, as the case may be) would have to be expensed when incurred since these do not meet the definition of an 'asset' as per AS 26.

(ii) In respect of the balances of the expenditure incurred on intangible items (referred to in paragraph 2 above) before the date AS 26 became/becomes mandatory, appearing in the balance sheet as on 1-4-2003 or 1-4-2004, as the case may be, paragraphs 99 and 100 of AS 26 are applicable.

In view of the above, it would not be proper to adjust the balances of such items against the revenue reserves as on 1-4-2003 or 1-4-2004, as the case may be, and such items should continue to be expensed over a number of years as originally contemplated, since as per the accounting principles relevant for deferred revenue expenditure in India, such expenditure is spread over a period which is normally less than the period contemplated in paragraph 63 of AS 26.

(iii) In case an enterprise has already adjusted the above referred balances of the intangible items appearing in the balance sheet as on 1-4-2003 against the opening balance of revenue reserves as on 1-4-2003, it should rectify the same on the basis of the above requirements.

XX. Applicability of AS 4 to impairment of assets not covered by present Indian Accounting Standards[81]

1. Accounting Standard (AS) 29, 'Provisions, Contingent Liabilities and Contingent Assets', issued by the Institute in November 2003, comes into effect in respect of accounting periods commencing on or after 1-4-2004. As per AS 29, from the date of this Accounting Standard becoming mandatory, all paragraphs of Accounting Standard (AS) 4, Contingencies and Events Occurring After the Balance Sheet Date, that deal with contingencies (viz., paragraphs 1 (a), 2, 3.1, 4 (4.1 to 4.4), 5 (5.1 to 5.6), 6, 7 (7.1 to 7.3), 9.1 (relevant portion), 9.2, 10, 11, 12 and 16), stand withdrawn.

2. Paragraph 7 of AS 29 provides that this Statement defines provisions as liabilities which can be measured only by using a substantial degree of estimation. It further provides that the term 'provision' is also used in the context of items such as depreciation, impairment of assets and doubtful debts: these are adjustments to the carrying amounts of assets and are not addressed in this Statement. In view of this, impairment of assets and doubtful debts are not covered by AS 29.

3. It may be noted that the paragraphs of AS 4 dealing with contingencies also cover provision for contingent loss in case of impairment of assets, not covered by other Accounting Standards, such as, AS 2, Valuation of Inventories, AS 10, Accounting for Fixed Assets, AS 13, Accounting for Investments and AS 28, Impairment of Assets (coming into effect from 1-4-2004). Accordingly, AS 4 deals with impairment of certain assets, for example, the impairment of financial assets like receivables (commonly referred to as the provision for bad and doubtful debts).

4. As may be noted from paragraph 1 above, pursuant to AS 29 coming into effect, the paragraphs of AS 4 that deal with contingencies stand withdrawn. It may further be noted that while impairment of certain assets is covered by some existing Accounting Standards referred to in paragraph

[81] Published in 'The Chartered Accountant', April 2004 (pp. 1151).

3 above, impairment of financial assets such as receivables, which are not covered by AS 29, is expected to be covered in an Accounting Standard on Financial Instruments: Recognition and Measurement, which is under preparation.

5. In view of the above, it is brought to the notice of the members and others that till the issuance of the proposed Accounting Standard on financial instruments, the paragraphs of AS 4 which deal with contingencies would remain operational to the extent they cover the impairment of assets not covered by other Indian Accounting Standards. Thus, for instance, impairment of receivables (commonly referred to as the provision for bad and doubtful debts) would continue to be covered by AS 4.

XXI. Deferment of the Applicability of AS 22 to Non-corporate Enterprises[82]

Non-corporate enterprises, such as sole proprietors, partnership firms, trusts, Hindu Undivided Families, association of persons and co-operative societies will now be required to follow Accounting Standard (AS) 22, Accounting for Taxes on Income, in respect of accounting periods commencing on or after 1-4-2006. The decision to this effect has been taken by the Council of the Institute of Chartered Accountants of India (ICAI), at its meeting, held on June 24-26, 2004. The applicability of AS 22 has been deferred for those non-corporate enterprises which were required to follow AS 22 in respect of accounting periods commencing on or after 1-4-2003.

It may be noted that the applicability paragraphs of AS 22 provided as below:

> "Accounting Standard (AS) 22, 'Accounting for Taxes on Income', issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2001. It is mandatory in nature for:
>
> (a) All the accounting periods commencing on or after 01.04.2001, in respect of the following:

[82] Published in 'The Chartered Accountant', July 2004 (pp. 119).

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All the enterprises of a group, if the parent presents consolidated financial statements and the Accounting Standard is mandatory in nature in respect of any of the enterprises of that group in terms of (i) above.

(b) All the accounting periods commencing on or after 01.04.2002, in respect of companies not covered by (a) above.

(c) All the accounting periods commencing on or after 01.04.2003, in respect of all other enterprises."

The decision to defer the applicability of AS 22 to enterprises covered by (c) above so as to make it mandatory in respect of accounting periods commencing on or after 1-4-2006 instead of 1-4-2003 has been taken by the Council on a consideration of certain representations and views expressed at various forums. This decision has been taken with a view to provide some more time to such enterprises for effective implementation of AS 22.

XXII. Applicability of Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates, in respect of exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction[83]

1. The revised Accounting Standard (AS) 11, The Effects of Changes in Foreign Exchange Rates, was published in the March 2003 issue of the Institute's Journal, 'The Chartered Accountant' (pp. 916 to 922). AS 11 (revised 2003) has come into effect in respect of accounting periods commencing on or after 1-4-2004 and is mandatory in nature from that date.

[83] Issued on the basis of the decision of the Council at its meeting held on June 24-26, 2004.

2. AS 11 (revised 2003) deals, inter alia, with forward exchange contracts. Paragraphs 36 and 37 of AS 11 (revised 2003) deal with accounting for a forward exchange contract or any other financial instrument that is in substance a forward exchange contract, which is not intended for trading or speculation purposes, i.e., it is for hedging purposes. Paragraphs 38 and 39 of AS 11 (revised 2003) deal with forward exchange contracts intended for trading or speculation purposes.

3. An issue has been raised regarding the applicability of AS 11 (revised 2003) to the exchange difference arising on a forward exchange contract or any other financial instrument that is in substance a forward exchange contract (hereinafter the term 'forward exchange contract' is used to include such other financial instruments also), entered into by an enterprise to hedge the foreign currency risk of a firm commitment[84] or a highly probable forecast transaction[85].

4. In this regard, it may be noted that paragraphs 36 and 37 of AS 11 (revised 2003) are not intended to deal with forward exchange contracts which are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. Further, paragraphs 38 and 39 are also not applicable in respect of such forward exchange contracts since these contracts are not for trading or speculation purposes. Accordingly, it is clarified that AS 11 (revised 2003) does not deal with the accounting of exchange difference arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction.[86]

5. It may be noted that the hedge accounting, in its entirety, including hedge of a firm commitment or a highly probable forecast transaction, is proposed to be dealt with in the accounting standard on Financial Instruments: Recognition and Measurement, which is presently under formulation.

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[84] A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

[85] A forecast transaction is an uncommitted but anticipated future transaction.

[86] It has been separately clarified that AS 11 continues to be applicable to exchange differences in respect of all forward exchange contracts other than those entered into, to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction (published in 'The Chartered Accountant', August 2004, pp. 187).

For subsequent developments in this regard, see also Announcements XXXI, XXXII and XXXIII published hereinafter.

XXIII. Elimination of unrealised profits and losses under AS 21, AS 23 and AS 27[87]

Accounting Standard (AS) 21, Consolidated Financial Statements, came into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory from that date if an enterprise presents consolidated financial statements. Paragraph 16 of AS 21 requires that intragroup balances and intragroup transactions and resulting unrealised profits should be eliminated in full. It further provides that unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

There may be transactions between a parent and its subsidiary(ies) entered into during accounting periods commencing on or after 31-3-2001. While preparing consolidated financial statements, in respect of some of the transactions entered into during accounting periods commencing on or before 31-3-2001, it may not be practicable to eliminate resulting unrealised profits and losses. It has, therefore, been decided that elimination of unrealised profits and losses in respect of transactions entered into during accounting periods commencing on or before 31-3-2001, is encouraged, but not required on practical grounds.

The above position also applies in respect of AS 23, Accounting for Investments in Associates in Consolidated Financial Statements and AS 27, Financial Reporting of Interests in Joint Ventures while applying the 'equity method' and 'proportionate consolidation method' respectively.

XXIV. Disclosures in cases where a Court/Tribunal makes an order sanctioning an accounting treatment which is different from that prescribed by an Accounting Standard[88]

Paragraph 4.2 of the 'Preface to the Statements of Accounting Standards' (revised 2004) provides as under:

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[87] Published in 'The Chartered Accountant', July 2004 (pp. 46).

[88] Published in 'The Chartered Accountant', December 2004 (pp. 825).

> "4.2 The Accounting Standards by their very nature cannot and do not override the local regulations which govern the preparation and presentation of financial statements in the country. However, the ICAI will determine the extent of disclosure to be made in financial statements and the auditor's report thereon. Such disclosure may be by way of appropriate notes explaining the treatment of particular items. Such explanatory notes will be only in the nature of clarification and therefore need not be treated as adverse comments on the related financial statements."

In the case of Companies, Section 211 (3B) of the Companies Act, 1956, provides that "Where the profit and loss account and the balance sheet of the company do not comply with the accounting standards, such companies shall disclose in its profit and loss account and balance sheet, the following, namely:

(a) the deviation from the accounting standards;

(b) the reasons for such deviation; and

(c) the financial effect, if any, arising due to such deviation."

In view of the above, if an item in the financial statements of a Company is treated differently pursuant to an Order made by the Court/Tribunal, as compared to the treatment required by an Accounting Standard, following disclosures should be made in the financial statements of the year in which different treatment has been given:

1. A description of the accounting treatment made along with the reason that the same has been adopted because of the Court/ Tribunal Order.

2. Description of the difference between the accounting treatment prescribed in the Accounting Standard and that followed by the Company.

3. The financial impact, if any, arising due to such a difference.

It is recommended that the above disclosures should be made by enterprises other than companies also in similar situations.

XXV. Treatment of Inter-divisional Transfers[89]

Attention of the members is invited to the definition of the term 'revenue' in Accounting Standard (AS) 9, Revenue Recognition, issued by the Institute of Chartered Accountants of India, which is reproduced below:

> "*Revenue* is the gross inflow of cash, receivables or other consideration **arising in the course of the ordinary activities of an enterprise** from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration." (emphasis supplied)

The use of the word 'enterprise' in the definition of the term 'revenue' clearly implies that the transfers within the enterprise cannot be considered as fulfilling the definition of the term 'revenue'. Thus, the recognition of inter-divisional transfers as sales is an inappropriate accounting treatment and is inconsistent with Accounting Standard (AS) 9, Revenue Recognition. This aspect is further strengthened by considering the recognition criteria laid down in AS 9. Paragraphs 10 and 11 of AS 9, reproduced below, provide as to when revenue from the sale of goods should be recognised:

> ***"10. Revenue from sales or service transactions should be recognised when the requirements as to performance set out in paragraphs 11 and 12 are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.***
>
> ***11. In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:***

[89] Published in 'The Chartered Accountant', May 2005 (pp. 1531).

> ***(i)*** ***the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and***
>
> ***(ii)*** ***no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods."***

Since in case of inter-divisional transfers, risks and rewards remain within the enterprise and also there is no consideration from the point of view of the enterprise as a whole, the recognition criteria for revenue recognition are also not fulfilled in respect of inter-divisional transfers.

XXVI. Withdrawal of the Statement on Auditing Practices

The Council of the Institute at its 249th meeting held on March 22 to 24, 2005 has decided to withdraw the Statement on Auditing Practices issued in June 1964, published in the Handbook of Auditing Pronouncements (2005 edn). The abovementioned statement has been withdrawn pursuant to the issuance of various Auditing and Assurance Standards and Guidance Notes on the topics covered by the different paragraphs of the said statement.

XXVII. Applicability of Accounting Standards to an Unlisted Indian Company, which is a Subsidiary of a Foreign Company Listed Outside India[90]

1. The Council of the Institute of Chartered Accountants of India has issued an Announcement (see 'The Chartered Accountant', November 2003 (pp. 480-489)) on 'Applicability of Accounting Standards' with a view to lay down the scheme of applicability of Accounting Standards to Small and Medium Sized Enterprises (SMEs). As per the said scheme, all accounting standards are applicable to Level I enterprises. Level I enterprises, *inter alia*, include (i) enterprises whose equity or debt

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[90] Published in 'The Chartered Accountant', August 2005 (pp. 338-339).

securities are listed whether in India or outside India, and (ii) holding or a subsidiary of a Level I enterprise.

2. With regard to above, an issue has been raised as to whether, as per the above scheme, a foreign company which is incorporated and listed outside India would also be considered as a Level I enterprise and consequent to this, whether an unlisted Indian company, which is a subsidiary of this foreign company, would become a Level I enterprise merely because of it being a subsidiary of the said foreign company.

3. It is clarified that, in the above-stated scheme, the term 'enterprise' includes all entities that are required to prepare their financial statements as per the Indian GAAPs. Accordingly, all Indian entities, *i.e.*, the entities which are incorporated in India, are covered in the said scheme. The scheme also covers those foreign entities which are required to prepare their financial statements as per the Indian GAAPs. Thus, in case a foreign company, which is incorporated and listed outside India, is required to prepare its financial statements as per the Indian GAAPs, it will be considered as a Level I enterprise. In such a case, the Indian company, which is a subsidiary of the aforesaid foreign company, would also be considered as a Level I enterprise for the reason that it is a subsidiary of another Level I enterprise. In case the parent foreign company is not required to prepare its financial statements as per the Indian GAAPs, its Indian subsidiary would not be considered to be a Level I enterprise provided it does not meet any other criteria for becoming Level I enterprise as per the said scheme. Thus, in such a situation, the status of the Indian company under the above scheme will be determined independent of the status of its parent foreign company.

XXVIII. Tax effect of expenses/income adjusted directly against the reserves and/or Securities Premium Account[91]

1. It has been noticed that some companies are charging certain expenses, which are otherwise required to be charged to the profit and loss account, directly against reserves and/or Securities Premium Account pursuant to the court orders. In such a case, while the expenses are charged to reserves and/or Securities Premium Account, the tax benefit

[91] Published in 'The Chartered Accountant', September 2005 (pp. 495-496).

arising from admissibility of such expenses for tax purposes is not recognised in the reserves and/or Securities Premium Account. Such a situation may also arise where an enterprise adjusts its reserves to give effect to a change, if any, in accounting policy consequent upon adoption of an Accounting Standard, in accordance with the transitional provisions contained in the standard. Further, a company may adjust an expense against the Securities Premium Account as allowed under the provisions of section 78 of the Companies Act, 1956. A similar situation may arise where, pursuant to a court order or under transitional provisions prescribed in an accounting standard, an income, which should have otherwise been credited to the profit and loss account in accordance with the requirements of generally accepted accounting principles, may have been directly credited to a reserve account or a similar account and the tax effect thereof is not recognised in the reserve account or a similar account.

2. Not recognising the tax benefit, arising from admissibility of expense charged to the reserves and/or Securities Premium Account, in the reserves and/or Securities Premium Account is contrary to the generally accepted accounting principles because it results in recognition and presentation of tax effect of an expense in a manner which is different from the manner in which the expense itself has been recognised and presented. Similarly, recognising and presenting the tax effect of an income in a manner which is different from the manner in which income itself has been recognised and presented is contrary to the generally accepted accounting principles. Accordingly, any expense charged directly to reserves and/or Securities Premium Account should be net of tax benefits expected to arise from the admissibility of such expenses for tax purposes. Similarly, any income credited directly to a reserve account or a similar account should be net of its tax effect.

3. In view of the above, any item of income or expense adjusted directly to reserves and/or Securities Premium Account should be net of its tax effect.

XXIX. Applicability of Accounting Standard (AS) 28, Impairment of Assets, to Small and Medium Sized Enterprises (SMEs)[92]

1. Accounting Standard (AS) 28, *Impairment of Assets*, issued by the Council of the Institute of Chartered Accountants of India, comes into

[92] Published in 'The Chartered Accountant', November 2005 (pp. 777-778).

effect in respect of accounting periods commencing on or after 1-4-2004. The Standard is mandatory in nature from different dates for different levels of enterprises as below:

(i) To Level I enterprises- from accounting periods commencing on or after 1.4.2004.

(ii) To Level II enterprises- from accounting periods commencing on or after 1.4.2006.

(iii) To Level III enterprises- from accounting periods commencing on or after 1.4.2008.

The criteria for different levels are given in Annexure I.

2. Considering the feedback received from various interest-groups and the concerns expressed at various forums, it is felt that relaxation should be given to Level II and Level III enterprises (referred to as 'Small and Medium Sized Enterprises' (SMEs)), from the measurement principles contained in AS 28, Impairment of Assets.

3. AS 28 defines, *inter alia*, the following terms:

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Recoverable amount is the higher of an asset's net selling price and its value in use.

Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

4. The relaxations for SMEs in respect of AS 28 have been decided as below:

(i) Considering that detailed cash flow projections of SMEs are often not readily available, SMEs are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Therefore, the definition of the term 'value in use' in the context of the SMEs would read as follows:

"Value in use ***is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life, or a reasonable estimate thereof".***

(ii) The above change in the definition of 'value in use' implies that instead of using the present value technique, a reasonable estimate of the 'value in use' can be made. Consequently, if an SME chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such an SME. Further, such an SME need not disclose the information required by paragraph 121(g) of the Standard. Subject to this, the other provisions of AS 28 would be applicable to SMEs.

5. An enterprise, which, pursuant to the above provisions, does not use the present value technique for measuring value in use, should disclose, the fact that it has measured its 'value in use' on the basis of the reasonable estimate thereof and the manner in which the estimate has been arrived at including assumptions that govern the estimate.

6. Where an enterprise has been covered in Level I and subsequently, ceases to be so covered, the enterprise will not qualify for relaxation/ exemption from the applicability of this Standard, until the enterprise ceases to be covered in Level I for two consecutive years.

7. Where an enterprise has previously qualified for the above relaxations (being not covered in Level I) but no longer qualifies for relaxation in the current accounting period, this Standard becomes applicable from the current period without the above relaxations. However, the corresponding previous period figures in respect of the relevant disclosures need not be provided.

The above provisions are applicable in respect of the accounting periods commencing on or after 1-4-2006 (for Level II enterprises) and 1-4-2008 (for Level III enterprises). However, if an enterprise being a Level II enterprise starts applying AS 28 from accounting periods beginning on or after 1-4-2006, it will continue to apply this Standard even if it ceases to be covered in Level II and becomes a Level III enterprise.

Annexure I

Criteria for classification of enterprises

Level I Enterprises

Enterprises which fall in any one or more of the following categories, at any time during the accounting period, are classified as Level I enterprises:

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.

(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.

(iii) Banks including co-operative banks.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

Level II Enterprises

Enterprises which are not Level I enterprises but fall in any one or more of the following categories are classified as Level II enterprises:

(i) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 40 lakhs but does not exceed Rs. 50 crore. Turnover does not include 'other income'.

(ii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 1 crore but not in excess of Rs. 10 crore at any time during the accounting period.

(iii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

Level III Enterprises

Enterprises which are not covered under Level I and Level II are considered as Level III enterprises.

XXX. Disclosures regarding Derivative Instruments[93]

1. In recent years, derivative instruments are increasingly being used for trading as well as hedging purposes. A 'derivative' is a financial instrument or other contract with all three of the following characteristics:

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');

(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

(c) it is settled at a future date.

2. Accounting Standard (AS) 1, Disclosure of Accounting Policies, requires that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. In view of the aforesaid requirement of AS 1, an enterprise should disclose the criteria applied for recognition and measurement of the derivative instruments which are used by the enterprise for hedging or for other purposes and the criteria applied for recognition and measurement of income and expenses arising from such instruments.

[93] Published in 'The Chartered Accountant', December 2005 (pp. 927).

3. The Accounting Standards Board of the Institute of Chartered Accountants of India is in the process of developing Accounting Standards on (i) 'Financial Instruments: Presentation', (ii) 'Financial Instruments: Disclosures' and (iii) 'Financial Instruments: Recognition and Measurement' which would deal with the presentation, disclosure and recognition and measurements aspects of all financial instruments including derivative instruments. Pending the issuance of the said Accounting Standards, the Institute is of the view that with a view to provide information regarding the extent of risks to which an enterprise is exposed, it should, as a minimum, make following disclosures in its financial statements:

(a) category-wise quantitative data about derivative instruments that are outstanding at the balance sheet date,

(b) the purpose, viz., hedging or speculation, for which such derivative instruments have been acquired, and

(c) the foreign currency exposures that are not hedged by a derivative instrument or otherwise.

Effective Date

4. This Announcement is applicable in respect of financial statements for the accounting period(s) ending on or after March 31, 2006.

XXXI. Accounting for exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction[94]

1. The Institute of Chartered Accountants of India (ICAI) issued an

[94] Published in 'The Chartered Accountant', January 2006 (pp. 1090-1091). It may be noted that considering the issue being raised regarding the applicability date of the Announcement, the Institute has decided that this Announcement is applicable in respect of accounting period(s) commencing on or after April 1, 2006 (see Announcement XXXII issued in this regard).

Subsequent to the above, certain representations were received and views were expressed on certain forums regarding the applicability of the Announcement. Considering these representations and views, the Institute has decided to defer the applicability of the Announcement by one year. The Announcement would now be applicable in respect of accounting period(s) commencing on or after April 1, 2007 (see Announcement XXXIII issued in this regard).

Announcement on ‘Applicability of Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates, in respect of exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment[95] or a highly probable forecast transaction[96] (see ‘The Chartered Accountant’, July 2004 (pp. 110)). As per the Announcement, AS 11 (revised 2003) is not applicable to the exchange differences arising on forward exchange contracts entered into to hedge the foreign currency risks of a firm commitment or a highly probable forecast transaction. It is stated in the Announcement that the hedge accounting, in its entirety, including hedge of a firm commitment or a highly probable forecast transaction, is proposed to be dealt with in the Accounting Standard on ‘Financial Instruments: Recognition and Measurement’, which is under formulation.

2. It may be noted that as per the above Announcement, AS 11 (revised 2003) is not applicable to the exchange differences arising on the forward exchange contracts entered into to hedge the foreign currency risks of a firm commitment or a highly probable forecast transaction. Accordingly, the premium or discount in respect of such contracts continues to be governed by AS 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates.

3. It has been noted that in the absence of any authoritative pronouncement of the Institute on the subject, different enterprises are accounting for exchange differences arising on such contracts in different ways which is affecting the comparability of financial statements. Keeping this in view, the matter has been reconsidered and the Institute is of the view that pending the issuance of the proposed Accounting Standard on ‘Financial Instruments: Recognition and Measurement’, which is under formulation, exchange differences arising on the forward exchange contracts entered into to hedge the foreign currency risks of a firm commitment or a highly probable forecast transaction should be recognised in the statement of profit and loss in the reporting period in which the exchange rate changes. Any profit or loss arising on renewal or cancellation of such contracts should be recognised as income or expense for the period.

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[95] A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

[96] A forecast transaction is an uncommitted but anticipated future transaction.

XXXII. Applicability Date of Announcement on 'Accounting for exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction'[97]

1. The Institute of Chartered Accountants of India (ICAI), in January 2006, issued an Announcement on *'Accounting for exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction'*. Pending the issuance of the proposed Accounting Standard on *'Financial Instruments: Recognition and Measurement'*, which is under formulation, the said Announcement prescribes the accounting treatment which should be followed in respect of the exchange differences arising on the forward exchange contracts entered into to hedge the foreign currency risks of a firm commitment or a highly probable forecast transaction.

2. An issue has been raised regarding the applicability date of the Announcement. The ICAI has considered the issue and it has been decided that this Announcement is applicable in respect of accounting period(s) commencing on or after April 1, 2006. Earlier application of the Announcement is however encouraged.[98]

XXXIII. Deferment of Applicability of Announcement on 'Accounting for exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction'[99]

1. The Institute of Chartered Accountants of India (ICAI), in January 2006, issued an Announcement on 'Accounting for exchange differences

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[97] Published in 'The Chartered Accountant', February 2006 (pp. 1243).

[98] It may be noted that subsequent to the issuance of this Announcement, certain representations were received and views were expressed on certain forums regarding the applicability of the Announcement issued in January 2006. Considering these representations and views, the Institute has decided to defer the applicability of the said Announcement by one year. The said Announcement would now be applicable in respect of accounting period(s) commencing on or after April 1, 2007 (see Announcement XXXIII issued in this regard).

[99] Published in 'The Chartered Accountant', June 2006 (pp. 1774).

arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction'. Pending the issuance of the proposed Accounting Standard on 'Financial Instruments: Recognition and Measurement', which is under formulation, the said Announcement prescribes the accounting treatment which should be followed in respect of the exchange differences arising on the forward exchange contracts entered into to hedge the foreign currency risks of a firm commitment or a highly probable forecast transaction.

2. Considering the issues being raised regarding the applicability date of the Announcement, the ICAI subsequently decided that this Announcement was applicable in respect of accounting period(s) commencing on or after April 1, 2006.

3. Certain representations have been received and views have been expressed on certain forums regarding the applicability of this Announcement. Considering these representations and views, the Council of the ICAI has decided to defer the applicability of this Announcement by one year. This Announcement would now be applicable in respect of accounting period(s) commencing on or after April 1, 2007.

LIST OF MANDATORY STATEMENTS AND STANDARDS

On the basis of the above announcements made by the Council, the Secretariat of the Auditing and Assurance Standards Board[100] and Accounting Standards Board have prepared the following list of statements and standards which are mandatory as on 01.07.2006 or would become mandatory at specified date(s) in future.[101]

[100] Refer footnote 2.

[101] It may be noted that Auditing and Assurance Standards become operative in respect of all audits relating to accounting periods beginning on or after the date specified in the respective Auditing and Assurance Standard (AAS). However, the following Auditing and Assurance Standards become operative for all audits commencing on or after the dates specified in the respective AASs:

(a) Auditing and Assurance Standard (AAS-18), 'Audit of Accounting Estimates';
(b) Auditing and Assurance Standard (AAS-19), 'Subsequent Events';
(c) Auditing and Assurance Standard (AAS-20), 'Knowledge of the Business';
(d) Auditing and Assurance Standard (AAS-21), 'Consideration of Laws and Regulations in an Audit of Financial Statements'; and
(e) Auditing and Assurance Standard (AAS-22), 'Initial Engagements – Opening Balances'.

(A) List of Statements on Auditing and Accounting as on 01.07.2006

1. Statement on Payments to Auditors for Other Services.

2. Statement on the Companies (Auditor's Report) Order, 2003 (Revised 2005).[102]

3. Statement on Qualifications in Auditor's Report.

4. Statement on the Amendments to Schedule VI to the Companies Act, 1956.

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[102] Issued in April, 2004, pursuant to the issuance of the Companies (Auditor's Report) Order, 2003. The revised edition issued in April 2005 pursuant to the issuance of the Companies (Auditor's Report) (Amendment) Order, 2004.

(B) List of Auditing and Assurance Standards[103] as on 01.07.2006

Sl.	Auditing and Assurance Standard (AAS) No.	Title of the Auditing and Assurance Standard	Date from which effective
01.	AAS 1	Basic Principles Governing an Audit	Effective for all audits related to accounting periods beginning on or after April 1, 1985
02.	AAS 2	Objective and Scope of an Audit of Financial Statements	Effective for all audits related to accounting periods beginning on or after April 1, 1985
03.	AAS 3	Documentation	Effective for all audits related to accounting periods beginning on or after July 1, 1985
04.	AAS 4[104]	The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements	Effective for all audits related to accounting periods beginning on or after April 1, 2003
05.	AAS 5	Audit Evidence	Effective for all audits related to accounting periods beginning on or after January 1, 1989
06.	AAS 6[105]	Risk Assessments and Internal Control	Effective for all audits related to accounting periods beginning on or after April 1, 2002

[103] Refer footnote 2.

[104] The revised AAS 4, 'The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements' becomes operative for all audits related to accounting periods beginning on or after 1st April, 2003. The original AAS 4, 'Fraud and Error', issued in June, 1987, remains operative for all audits relating to accounting periods beginning on or before 31st March, 2003.

[105] The revised AAS 6, 'Risk Assessments and Internal Control' becomes operative for all audits related to accounting periods beginning on or after 1st April 2002. The original AAS 6, 'Study and Evaluation of the Accounting System and Related Internal Controls in Connection with an Audit' issued in May, 1988 remains operative for all audits relating to accounting periods beginning on or before 31st March, 2002.

07.	AAS 7	Relying Upon the Work of an Internal Auditor	Effective for all audits related to accounting periods beginning on or after April 1, 1989
08.	AAS 8	Audit Planning	Effective for all audits related to accounting periods beginning on or after April 1, 1989
09.	AAS 9	Using the Work of an Expert	Effective for all audits related to accounting periods beginning on or after April 1, 1991
10.	AAS 10[106]	Using the Work of Another Auditor	Effective for all audits related to accounting periods beginning on or after April 1, 2002
11.	AAS 11	Representations by Management	Effective for all audits related to accounting periods beginning on or after April 1, 1995
12.	AAS 12	Responsibility of Joint Auditors	Effective for all audits related to accounting periods beginning on or after April 1, 1996
13.	AAS 13	Audit Materiality	Effective for all audits related to accounting periods beginning on or after April 1, 1996
14.	AAS 14	Analytical Procedures	Effective for all audits related to accounting periods beginning on or after April 1, 1997
15.	AAS 15	Audit Sampling	Effective for all audits related to accounting periods beginning on or after April 1, 1998

[106] The Revised AAS 10, 'Using the Work of Another Auditor' becomes operative for all audits related to accounting periods beginning on or after 1st April 2002. The original AAS 10, 'Using the Work of Another Auditor' issued in April 1995 remains operative for all audits relating to accounting periods beginning on or before 31st March, 2002.

16.	AAS 16	Going Concern	Effective for all audits related to accounting periods beginning on or after April 1, 1999
17.	AAS 17	Quality Control for Audit Work	Effective for all audits related to accounting periods beginning on or after April 1, 1999
18.	AAS 18	Audit of Accounting Estimates	Effective for all audits commencing on or after April 1, 2000
19.	AAS 19	Subsequent Events	Effective for all audits commencing on or after April 1, 2000
20.	AAS 20	Knowledge of the Business	Effective for all audits commencing on or after April 1, 2000
21.	AAS 21	Consideration of Laws and Regulations in an Audit of Financial Statements	Effective for all audits commencing on or after July 1, 2001
22.	AAS 22	Initial Engagements – Opening Balances	Effective for all audits commencing on or after July 1, 2001
23.	AAS 23	Related Parties	Effective for all audits related to accounting periods beginning on or after April 1, 2001
24.	AAS 24	Audit Considerations relating to Entities Using Service Organisations	Effective for all audits related to accounting periods beginning on or after April 1, 2003
25.	AAS 25	Comparatives	Effective for all audits related to accounting periods beginning on or after April 1, 2003
26.	AAS 26	Terms of Audit Engagement	Effective for all audits related to accounting periods beginning on or after April 1, 2003

27.	AAS 27	Communications of Audit Matters with Those Charged with Governance	Effective for all audits related to accounting periods beginning on or after April 1, 2003
28.	AAS 28	The Auditor's Report on Financial Statements	Effective for all audits related to accounting periods beginning on or after April 1, 2003
29.	AAS 29	Auditing in a Computer Information Systems Environment	Effective for all audits related to accounting periods beginning on or after April 1, 2003
30.	AAS 30	External Confirmations	Effective for all audits related to accounting periods beginning on or after April 1, 2003
31.	AAS 31[107]	Engagements to Compile Financial Information	Applicable to all compilation engagements beginning on or after April 1, 2004
32.	AAS 32[108]	Engagements to Perform Agreed upon Procedures regarding Financial Information	Applicable to all agreed upon procedures engagements beginning on or after April 1, 2004
33.	AAS 33[109]	Engagement to Review Financial Statements	Applicable to all review engagements relating to accounting periods beginning on or after April 1, 2005
34.	AAS 34	Audit Evidence-Additional Consideration for Specific Items	Applicable to all audits related to accounting period beginning on or after April 1, 2005

[107] With the issuance of this Auditing and Assurance Standard, the Guidance Note on Members' Duties regarding Engagements to Compile Financial Information, issued by the Institute of Chartered Accountants of India in February 2002, shall stand withdrawn.

[108] With the issuance of this Auditing and Assurance Standard, the Guidance Note on Engagements to Perform Agreed-upon Procedures regarding Financial Information, issued by the Institute of Chartered Accountants of India in July 2001, shall stand withdrawn.

[109] With the issuance of AAS 33, the Guidance Note on Engagement to Review Financial Statements issued by the Institute of Chartered Accountants of India in May 2000 stands withdrawn.

(C) List of Accounting Standards mandatory* as on July 1, 2006

Sl. No.	Accounting Standard (AS) No.	Title of the Accounting Standard	Applicability to Level I Enterprises (see Note 1)	Applicability to Level II Enterprises (see Note 1)	Applicability to Level III Enterprises (see Note 1)
1.	AS 1	Disclosure of Accounting Policies	Yes	Yes	Yes
2.	AS 2 (Revised)	Valuation of Inventories	Yes	Yes	Yes
3.	AS 3 (Revised)	Cash Flow Statements	Yes	Not required, but encouraged	Not required, but encouraged
4.	AS 4 (Revised)	Contingencies** and Events Occurring After the Balance Sheet Date	Yes	Yes	Yes
5.	AS 5 (Revised)	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	Yes	Yes	Yes
6.	AS 6 (Revised)	Depreciation Accounting	Yes	Yes	Yes

[*] Reference may be made to the foregoing announcements for a detailed discussion on the implications of the mandatory status of an accounting standard.

[**]Pursuant to AS 29, *'Provisions, Contingent Liabilities and Contingent Assets'*, becoming mandatory in respect of accounting periods commencing on or after 1-4-2004, all paragraphs of AS 4 that deal with contingencies stand withdrawn except to the extent they deal with impairment of assets not covered by other Indian Accounting Standards (see Announcement XX published hereinbefore).

7.	AS 7 (Revised) (See Note 2 also)	Construction Contracts	Yes	Yes	Yes
8.	AS 8 (withdrawn pursuant to AS 26 becoming mandatory)	Accounting for Research and Development	N.A.	N.A.	N.A.
9.	AS 9	Revenue Recognition	Yes	Yes	Yes
10.	AS 10	Accounting for Fixed Assets	Yes	Yes	Yes
11.	AS 11 (Revised 2003) (See Note 3 also)	The Effects of Changes in Foreign Exchange Rates	Yes	Yes	Yes
12.	AS 12	Accounting for Government Grants	Yes	Yes	Yes
13.	AS 13	Accounting for Investments	Yes	Yes	Yes
14.	AS 14	Accounting for Amalgamations	Yes	Yes	Yes
15.	AS 15 (revised 2005)	Employee Benefits	Yes	Yes (see note 4 also)	Yes (see note 4 also)
16.	AS 16	Borrowing Costs	Yes	Yes	Yes
17.	AS 17	Segment Reporting	Yes	N.A.	N.A.

18.	AS 18	Related Party Disclosures	Yes	N.A.	N.A.
19.	AS 19 (See Note 5 also)	Leases	Yes	Yes {Except paragraphs 22(c), (e) and (f); 25(a), (b) and (e); 37(a), (f) and (g); and 46(b), (d) and (e)}	Yes {Except paragraphs 22(c), (e) and (f); 25(a), (b) and (e); 37(a), (f) and (g); and 46(b), (d) and (e)}
20.	AS 20	Earnings Per Share	See Note 6	See Note 6	See Note 6
21.	AS 21	Consolidated Financial Statements	See Note 7	See Note 7	See Note 7
22.	AS 22	Accounting for Taxes on Income	See Note 8	See Note 8	See Note 8
23.	AS 23	Accounting for Investments in Associates in Consolidated Financial Statements	See Note 7	See Note 7	See Note 7
24.	AS 24	Discontinuing Operations	Yes	N.A.	N.A.
25.	AS 25	Interim Financial Reporting	Yes	N.A. (See Note 9 also)	N.A. (See Note 9 also)
26.	AS 26 (See Note 10 also)	Intangible Assets	Yes	Yes	Yes
27.	AS 27	Financial Reporting of Interests in Joint Ventures	See Note 7	See Note 7	See Note 7

28.	AS 28	Impairment of Assets	Yes (w.e.f. 1.4.2004)	Yes (w.e.f. 1.4.2006) (see Note 11 also)	Yes (w.e.f. 1.4.2008) (see Note 11 also)
29.	AS 29	Provisions, Contingent Liabilities and Contingent Assets	Yes	Yes {Except paragraph 67}	Yes {Except paragraphs 66 and 67}

Notes

Note 1:

The Council, at its 236th meeting, held on September 16-18, 2003, considered the matter relating to applicability of Accounting Standards to Small and Medium Sized Enterprises (SMEs). The Council decided the following scheme for applicability of accounting standards to SMEs. This scheme comes into effect in respect of accounting periods commencing on or after 1-4-2004.

1. For the purpose of applicability of Accounting Standards, enterprises are classified into three categories, viz., Level I, Level II and Level III. Level II and Level III enterprises are considered as SMEs. The criteria for different levels are given below.

Level I Enterprises

Enterprises which fall in any one or more of the following categories, at any time during the accounting period, are classified as Level I enterprises:

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.

(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.

(iii) Banks including co-operative banks.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.[110]

Level II Enterprises

Enterprises which are not Level I enterprises but fall in any one or more of the following categories are classified as Level II enterprises:

(i) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 40 lakhs but does not exceed Rs. 50 crore. Turnover does not include 'other income'.

(ii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 1 crore but not in excess of Rs. 10 crore at any time during the accounting period.

(iii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

Level III Enterprises

Enterprises which are not covered under Level I and Level II are considered as Level III enterprises.

The following may also be noted in respect of applicability of Accounting Standards to Small and Medium Sized Enterprises (SMEs):

(i) An enterprise, which does not disclose certain information

[110]The Institute has issued an Announcement in 2005 titled 'Applicability of Accounting Standards to an Unlisted Indian Company, which is a Subsidiary of a Foreign Company Listed Outside India' (published in 'The Chartered Accountant', August 2005 (pp. 338-339)). For full text of the Announcement, reference may be made to Announcement XXVII published hereinbefore.

pursuant to the exemptions/relaxations available to an SME, should disclose the fact.

(ii) Where an enterprise has previously qualified for any exemption/ relaxation (being under Level II or Level III), but no longer qualifies for the relevant exemption/relaxation in the current accounting period, the relevant standards/requirements become applicable from the current period. However, the corresponding previous period figures need not be disclosed.

(iii) Where an enterprise has been covered in Level I and subsequently, ceases to be so covered, the enterprise will not qualify for exemption/relaxation available to Level II enterprises, until the enterprise ceases to be covered in Level I for two consecutive years. Similar is the case in respect of an enterprise, which has been covered in Level I or Level II and subsequently, gets covered under Level III.

Note 2: AS 7 (revised 2002) is applicable in respect of all contracts entered into during accounting periods commencing on or after 1-4-2003. In respect of all contracts entered into during accounting periods commencing on or before 31-3-2003, AS 7 (issued 1983) is applicable.

Note 3: AS 11 (revised 2003) comes into effect in respect of accounting periods commencing on or after 1-4-2004 and is mandatory in nature from that date. The revised Standard (2003) supersedes AS 11 (1994), except that in respect of accounting for transactions in foreign currencies entered into by the reporting enterprise itself or through its branches before the date the revised AS 11 (2003) comes into effect, AS 11 (1994) continues to be applicable.

It may be noted that the Institute has issued an Announcement titled 'Treatment of exchange differences under Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates vis-à-vis Schedule VI to the Companies Act, 1956'. As per the Announcement*, the requirement with regard to treatment of exchange difference contained in AS 11 (revised 2003), is different from Schedule VI to the Companies Act, 1956, since AS 11 (revised 2003) does not require the adjustment of exchange differences in the carrying amount of the fixed assets, in the situations envisaged in Schedule VI. It has been clarified that pending the amendment, if any, to Schedule VI to the Companies Act, 1956, in respect

* For full text of the Announcement, reference may be made to Announcement XVIII published hereinbefore.

of the matter, a company adopting the treatment described in Schedule VI will still be considered to be complying with AS 11 (revised 2003) for the purposes of section 211 of the Act. Accordingly, the auditor of the company should not assert non-compliance with AS 11 (2003) under section 227(3)(d) of the Act in such a case and should not qualify his report in this regard on the true and fair view of the state of the company's affairs and profit or loss of the company under section 227(2) of the Act.

It may be noted that in June 2004, the Institute issued an Announcement titled 'Applicability of Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates, in respect of exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction'. The Announcement clarifies that AS 11 (revised 2003) does not deal with the accounting of exchange difference arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. It is also separately clarified that AS 11 continues to be applicable to exchange differences on other forward exchange contracts.[111]

Note 4: (a) AS 15 (revised 2005) is applicable in its entirety, except the following, for Level II and Level III enterprises whose average number of persons employed during the year is 50 or more.

(i) paragraphs 11 to 16 of the Standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (*i.e.*, short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);

(ii) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date; and

(iii) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. However, such enterprises should

[111]Also see footnote 86.

actuarially determine and provide for the accrued liability in respect of defined benefit plans as follows:

- The method used for actuarial valuation should be the Projected Unit Credit Method.

- The discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard.

Such enterprises should disclose actuarial assumptions as per paragraph 120(l) of the Standard.

(iv) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. However, such enterprises should actuarially determine and provide for the accrued liability in respect of other long-term employee benefits as follows:

- The method used for actuarial valuation should be the Projected Unit Credit Method.

- The discount rate used should be determined by reference to market yields at the balance sheet date on government bonds as per paragraph 78 of the Standard.

(b) AS 15 (revised 2005) is applicable in its entirety, except the following, for Level II and Level III enterprises whose average number of persons employed during the year is less than 50.

(i) paragraphs 11 to 16 of the Standard to the extent they deal with recognition and measurement of short-term accumulating compensated absences which are non-vesting (i.e., short-term accumulating compensated absences in respect of which employees are not entitled to cash payment for unused entitlement on leaving);

(ii) paragraphs 46 and 139 of the Standard which deal with discounting of amounts that fall due more than 12 months after the balance sheet date; and

(iii) recognition and measurement principles laid down in paragraphs 50 to 116 and presentation and disclosure requirements laid down in paragraphs 117 to 123 of the Standard in respect of accounting for defined benefit plans. Such enterprises may calculate and account for the accrued liability under the defined benefit plans by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.

(iv) recognition and measurement principles laid down in paragraphs 129 to 131 of the Standard in respect of accounting for other long-term employee benefits. Such enterprises may calculate and account for the accrued liability under the other long-term employee benefits by reference to some other rational method, e.g., a method based on the assumption that such benefits are payable to all employees at the end of the accounting year.

Note 5: AS 19, Leases, comes into effect and is mandatory in nature in respect of all assets leased during accounting periods commencing on or after 1-4-2001.

Note 6: AS 20, Earnings Per Share, comes into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature, from that date, in respect of enterprises whose equity shares or potential equity shares are listed on a recognised stock exchange in India.

An enterprise which has neither equity shares nor potential equity shares which are so listed but which discloses earnings per share, should calculate and disclose earnings per share in accordance with this Standard from the aforesaid date. However, in respect of accounting periods commencing on or after 1-4-2004, if any such enterprise does not fall in any of the following categories, it need not disclose diluted earnings per share (both including and excluding extraordinary items) and information required by paragraph 48 (ii) of this Standard*:

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* Originally, no exemption was available to an enterprise, which had neither equity shares nor potential equity shares which were listed on a recognised stock exchange in India, but which disclosed earnings per share. It is clarified that no exemption is available even in respect of accounting periods commencing on or after 1-4-2004 to enterprises whose equity shares or potential equity shares are listed on a recognised stock exchange in India. It is also clarified that this Standard is not applicable to an enterprise which has neither equity shares nor potential equity shares which are listed on a recognised stock exchange in India and which also does not disclose earnings per share.

(i) Enterprises whose equity securities or potential equity securities are listed outside India and enterprises whose debt securities (other than potential equity securities) are listed whether in India or outside India.

(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.

(iii) Banks including co-operative banks.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.[112]

Note 7: AS 21, AS 23 and AS 27 (relating to consolidated financial statements) are required to be complied with by an enterprise if the enterprise, pursuant to the requirements of a statute/regulator or voluntarily, prepares and presents consolidated financial statements.

Note 8: AS 22 comes into effect in respect of accounting periods commencing on or after 1-4-2001. It is mandatory in nature for:

(a) All the accounting periods commencing on or after 01.04.2001, in respect of the following:

(i) Enterprises whose equity or debt securities are listed on a

[112] The Institute has issued an Announcement in 2005 titled 'Applicability of Accounting Standards to an Unlisted Indian Company, which is a Subsidiary of a Foreign Company Listed Outside India' (published in 'The Chartered Accountant', August 2005 (pp. 338-339)). For full text of the Announcement, reference may be made to Announcement XXVII published hereinbefore.

recognised stock exchange in India and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All the enterprises of a group, if the parent presents consolidated financial statements and the Accounting Standard is mandatory in nature in respect of any of the enterprises of that group in terms of (i) above.

(b) All the accounting periods commencing on or after 01.04.2002, in respect of companies not covered by (a) above.

(c) All the accounting periods commencing on or after 01.04.2006, in respect of all other enterprises.

Note 9: AS 25, Interim Financial Reporting, does not require any enterprise to present interim financial report. It is applicable only if an enterprise is required or elects to prepare and present an interim financial report. However, the recognition and measurement requirements contained in this Standard are applicable to interim financial results, e.g., quarterly financial results required by the SEBI.

At present, in India, enterprises are not required to present interim financial report within the meaning of AS 25. Therefore, no enterprise in India is required to comply with the disclosure and presentation requirements of AS 25 unless it voluntarily presents interim financial report within the meaning of AS 25. The recognition and measurement principles contained in AS 25 are also applicable only to certain Level I enterprises since only these enterprises are required by the concerned regulators to present interim financial results.

In view of the above, at present, AS 25 is not mandatorily applicable to Level II and Level III enterprises in any case.

Note 10 : AS 26 comes into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2003 and is mandatory in nature from that date for the following:

(i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crore.

In respect of all other enterprises, the Accounting Standard comes into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2004 and is mandatory in nature from that date.

In respect of intangible items appearing in the balance sheet as on the aforesaid date, i.e., 1-4-2003 or 1-4-2004, as the case may be, AS 26 has limited application as stated in paragraph 99 of this Standard.

Note 11: Considering that detailed cash flow projections of Level II and Level III enterprises are often not readily available, Level II and Level III enterprises are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique. Therefore, the definition of the term 'value in use' in the context of the Level II and Level III enterprises would read as follows:

> ***"Value in use** is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life, or a reasonable estimate thereof".*

The above change in the definition of 'value in use' implies that instead of using the present value technique, a reasonable estimate of the 'value in use' can be made. Consequently, if a Level II or Level III enterprise chooses to measure the 'value in use' by not using the present value technique, the relevant provisions of AS 28, such as discount rate etc., would not be applicable to such a Level II or Level III enterprise. Further, such a Level II or Level III enterprise need not disclose the information required by paragraph 121(g) of the Standard. Subject to this, the other provisions of AS 28 would be applicable to a Level II and Level III enterprise.