

2002

Indian Accounting Standards and GAAP

Interpretation, Issues and Practical Application

- Detail Interpretation of New Accounting Standards
- International Comparisons (IAS & US GAAP)
- Model Accounts
- Accounting Standard Compliance Checklist

by

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FIRST EDITION 2002

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PRICE IN INDIA
Rs. 1195/-

PRICE ABROAD
\$ 40
£ 30

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ISBN : 81-88156-25-6

Printed in India

Published by : Ketan Thakkar
Snow White Publication Pvt. Ltd.
Jer Mehal, 532 Kalbadevi Road,
Mumbai - 400 002.
Tel. : 2080654, 2053885, 2058242
Fax : 2007139
E-mail : swp@bom3.vsnl.net.in

Typesetted by : Finesse Graphics & Prints Pvt. Ltd.
309, Parvathi Industrial Estate,
Sun Mill Compound, Lower Parel,
Mumbai - 400 013.
Tel. : 4961685 • 4961605

Printed by : Syndicate Binder,
New Delhi.

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SECTION I - INTRODUCTION & GENERAL ACCOUNTING STANDARDS

Chapter

1. Introduction 1-240

This chapter provides an introduction to Indian, International and US Standards, explaining the process of formulating and implementing them. A comparison chart of the applicable Indian, International and US Standards has been set out by subject. The chapter includes 'Example Accounts' which are prepared to comply with the Indian Companies Act and the mandatory Indian GAAP, which in my view is one of the highlight of this book. A compliance checklist for Indian Accounting Standard is also included. This chapter also discusses the role of other regulatory agencies such as the Income-Tax Act, Companies Act, SEBI, etc in formulating Indian GAAP.

2. AS 1 — Disclosure of Accounting policies 241-271

This chapter deals with the major considerations involved in the selection of accounting policies. It gives practical examples on issues relating to materiality, going concern and the accrual concept of accounting. It also provides an international comparison. In the appendix to this chapter a comparison of the Indian Companies Act/Schedule VI and Accounting Standard disclosure requirement is set out.

3. AS 4 (Revised) - Contingencies and Events Occurring after the Balance Sheet Date 272-295

This chapter focuses on the considerable guidance and literature available in the IAS's in respect of the timing when a provision is required to be created particularly in relation to restructuring costs, VRS liability, etc. The International comparison provides the US GAAP chart that establishes relation between the probability of the

Chapter

contingency with the requirement for a provision or/and a disclosure. In the appendix, ICAI's opinion relating to timing issues for recording a liability is discussed in relation to VRS, wage settlement with retrospective effect, etc.

4. AS 5 (Revised) – Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies 296-314

Besides the commentary on the Standard, guidance is provided particularly in relation to the difference between ordinary, extra-ordinary and exceptional items. The concepts relating to prior period items, changes in accounting estimates and changes in accounting policies and the differences between them are explained with examples. As usual an international comparison is set out. The treatment and display of changes in accounting policies/ estimates and ordinary, extra-ordinary, exceptional and prior period items are discussed in light of the requirements under AS 5 and several ICAI opinions (see appendix) on the subject.

SECTION II — ASSET RELATED ACCOUNTING STANDARDS

5. AS 10 – Accounting for Fixed Assets 317-347

In addition to the normal commentary and guidance, income-tax implication *vis-à-vis* the provisions of the Standard is discussed. This chapter provides guidance on complicated areas such as, *capital v. repairs*, impact of foreign exchange fluctuations and MODVAT credit on capitalisation, accounting of machinery spares and special tools, etc. A summary of ICAI's various opinions on the subject are contained in the appendix.

6. AS 6 (Revised) – Depreciation Accounting 348-374

In addition to the commentary on AS 6 with an international comparison, issues and practical application relating to idle assets, use of sensible depreciation rates, changes in the depreciation method, depreciation on extra-shift, etc are set out. Appendix 1, summarises the critical ICAI's opinion on the subject and Appendix 2, provides Schedule XIV rates of depreciation.

7. AS 19 – Leases 375-445

The chapter is very detail providing a step by step explanation of the Standard. It explains with the

Chapter

help of innumerable examples, the concept of IRR, NPV, finance leases, operating leases, etc which would make understanding AS 19 easy. The chapter also gives the recent tax provisions, guide to using excel, practical examples on lease evaluation, etc. The chapter deals with not only the accounting consequences caused by AS 19 but also touches upon the business consequences. Certain specific doubts such as those relating to application of AS 19 on car leases between employer, employee and the leasing company are clarified.

8. **AS 26 — Intangible Assets 446-498**
The chapter provides a commentary and guidance on the Standard. A representation to ICAI on the ED on AS 26 is also included in the chapter. In the appendix the relevance of brand valuation in India, the method of valuing brands, accounting treatment of brands has been explained with real life examples.
9. **AS 2 (Revised) – Valuation of Inventories 499-531**
This chapter interprets the Standard in detail, providing relevant guidance wherever required. The treatment of taxes and duties on the valuation of inventories is given. The chapter also provides an international comparison. In the appendix, issues relating to determination of normal capacity, determination of net realizable value, inventory valuation in specialised situations, etc and ICAI opinions on them are discussed.
10. **AS 16 – Borrowing Costs 532-552**
The chapter provides interesting examples and clarification on the application and interpretative issues relating to capitalisation of borrowing costs. The subjective concepts in the Standard such as a qualifying asset, substantial period of time, part v whole, etc have been elaborated and explained in detail. The inconsistencies of AS 16 with the Guidance Note on 'Treatment of Expenditure During Construction Period' and the consequential effects are discussed. Tax implications are discussed in detail.
11. **Impairment of Assets – Proposed Accounting Standard 553-570**
The chapter contains detail interpretative and application guidelines. A detail note on the business consequences arising out of implementing the Standard in India is also included in the chapter.

Chapter

SECTION III — REVENUE RECOGNITION

12. AS 9 – Revenue recognition 573-611

Besides the commentary and guidance, subjects not dealt in AS 9, such as financial service fees, franchise fees, licence fees, revenue swaps, repo arrangements, etc are discussed in the chapter using International Standards and US GAAP. In the case of service contracts, the situations when AS 7 and AS 9 is used are explained. Timing and cut-off issues relating to revenue recognition are discussed using several ICAI's opinions (see Appendix 1). In Appendix 2, the final ICAI position on 'Accounting for DEPB benefits' is discussed at great length.

13. Construction Contracts – Proposed Accounting Standard 612-636

A commentary on the proposed Standard focusing on the changes from the old standard is provided. Practical examples of accounting and disclosure of construction contracts based on the proposed Standard are given. The difference between technical and cost completion is explained with international comparison. Complications relating to accounting for claims and incentives are suitably clarified.

SECTION IV — INVESTMENT RELATED ACCOUNTING STANDARDS

14. AS 13 – Accounting for Investments 639-656

The appendix to this chapter provides a control sheet that gives a broad comparison of various types of investments and the applicable Accounting Standards. The chapter provides more light on the provisioning for investments based on *long term* v. *short term* classification which tends to be very subjective. There are significant differences between Indian and International GAAP which are discussed at great length.

15. AS 14 – Accounting for Amalgamation 657-676

This chapter elaborates in a simple manner the pooling and purchase method of amalgamation with examples. The chapter also highlights international developments where the application of the pooling method has been highly restricted. The chapter also describes in detail fair value accounting, which is not contained in AS 14. The treatment of High Court orders that are received after the balance sheet date, or that are in contradiction with AS 14 is also discussed.

Chapter

16. AS 21 – Consolidated Financial Statements 677-711

The chapter identifies and provides practical guidance on several interpretation and implementation issues, such as, definition of control, treatment of goodwill, alignment of accounting policies and reporting dates, treatment in creeping acquisitions, unaudited subsidiaries, consolidation of specialised entities such as provident and gratuity trusts, ESOP trusts, special purpose entities, sub-contracting arrangements, etc. In the appendix examples are provided on consolidated financial statements based on IAS framework, which is not very different from the Indian framework.

17. AS 23 – Accounting for Investments in Associates in Consolidated Financial Statements... 712-723

The chapter elaborates the application of the equity method and the resultant problems and approach with international comparison.

18. AS 27 – Financial Reporting of Interests in Joint Ventures 724-734

The chapter provides a commentary on the Standard with international comparison.

SECTION V – DISCLOSURE RELATED ACCOUNTING STANDARDS**19. AS 3 (Revised) – Cash Flow Statements 737-753**

This chapter interprets the Standard in detail, providing relevant guidance wherever required. In the chapter a table comparing operating, investing and financing activities and their display in the cash flow statements are set out in an easy to understand and lucid manner. An international comparison between IAS 7, AS 3 and US GAAP is also set out. In the appendix, cash flow statement of large companies across various industries are provided.

20. AS 17 – Segment Reporting 754-824

Since the Standard is very judgemental, the chapter provides a very detail application and interpretative guidelines on the subject with the help of practical examples and questions and answers. Issues relating to identification of segments, allocation of assets, liabilities, revenues and expenses to segments, vertical segments, transfer pricing, etc have been dealt with at great length. A case study and several practical examples have been provided in the appendix to the chapter.

Chapter

21. AS 18 – Related Party Transactions 825-857

Amongst other issues, this chapter deals with the process of defining and identifying related parties and the kind of transactions that would need disclosures. The chapter also compares the definition of related parties under AS 18 and various other statutes. The auditors exact responsibility in relation to related party transactions is also explained. The appendix contains an aggregated disclosure of related party transactions, which will be useful to many enterprises.

22. AS 20 – Earnings Per Share 858-877

The chapter predominantly provides a commentary on the subject.

23. AS 24 – Discontinuing operations 878-888

The chapter provides a commentary and guidance on the Standard. A representation to ICAI on the ED to AS 24 is also included in the chapter.

SECTION VI — OTHER ACCOUNTING STANDARDS

24. AS 11 – Accounting for the Effects of Changes in Foreign Exchange Rates 891-910

Along with the commentary, guidance and international comparison, application issues are dealt with appropriately. A summary of ICAI's various opinions on the subject are contained in the appendix.

25. AS 12 – Accounting for Government Grants 911-915

The chapter predominantly provides a commentary on the subject.

26. AS 15 – Accounting for Retirement Benefits in the Financial Statements of Employers 916-954

The chapter provides a detail interpretative and application guidelines. The international comparison contained in the chapter highlights the inadequacy of AS 15 in a large number of areas, such as the use of well defined actuarial assumptions, actuarial method, long term employee benefits, such as jubilee or other long service benefits, etc. The chapter contains an appendix on SEBI guidelines on 'Accounting for ESOP & ESPS Schemes'.

Chapter

- 27. AS 22 – Accounting for taxes on income 955-994**
 This chapter raises and resolves a large number of issues relating to the Standard, particularly in relation to deferred taxes during tax holiday period, partial tax breaks, MAT, etc. It also provides guidelines on subjective terms used in AS 22 such as 'virtual certainty', to account for deferred tax assets in the case of tax losses and unabsorbed depreciation. The determination of deferred taxes in the interim periods is also dealt with. The appendices containing disclosure notes on accounting policies, frequently asked questions and an example on computation of deferred taxes will be very useful to readers.
- 28. AS 25 – Interim Financial Reporting 995-1065**
 The chapter provides a commentary and guidance on the Standard with international comparison. A representation to ICAI on the ED to AS 25 is also included in the chapter. Important provisions relating to the Guidance Note on Engagement to Review Financial Statements are also included in the chapter. The appendix contains a very practical and useful checklist for half yearly accounts with SEBI circulars, which can be used by both the accountants and the auditors to ensure compliance.

APPENDICES

Text of Accounting Standards (AS Series) issued by the Institute of Chartered Accountants of India

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- 2. AS 2 – Valuation of Inventories 1077**
- 3. AS 3 – Cash flow Statements 1082**
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