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

Contents

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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 :–

(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 '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]

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).

4 Statement on Qualifications in Auditor's Report.

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

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.

9 Statement on the Treatment of Retirement Gratuity in Accounts.[15]

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

11 Statement of Accounting for Foreign Currency Translation.[16]

II Accounting Standards 1, 7, 8, 9 and 10 Made Mandatory[17]

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 will become mandatory in respect of accounts for periods commencing on or after 1.4.1991. [18]

(a) AS 1 - Disclosure of Accounting Policies

(b) AS 7 - Accounting for Construction Contracts[19]

(c) AS 8 - Accounting for Research and Development[20]

(d) AS 9 - Revenue Recognition

(e) AS 10 - Accounting for Fixed Assets[21]

2 The Companies Act, 1956,[22] 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 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.
>
> 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 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.

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[27] or any other provisions of the Companies Act, 1956 have In accordance with para 6.2 of the 'Preface to the Statementsnot 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[28] 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[29] 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[30]

13 Non-compliance with any of the requirements of the above Standards by any enterprise[31] 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 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'[32] and Accounting Standard (AS) 5, 'Prior Period and Extraordinary Items and Changes in Accounting Policies'[33] 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[34] . It may be clarified that the 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[35]

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' 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[36]

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.

> "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.[37] 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 …."

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.

We report that ...."

(b) Where a partnership firm[38] 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.

We report that ...."

III Applicability of Mandatory Accounting Standards to Non- corporate Enterprises[39]

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[40]

3 AS 8 - Accounting for Research and Development[41]

4 AS 9 - Revenue Recognition

5 AS 10 - Accounting for Fixed Assets[42]

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.

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[43] 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[44] 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[45]

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 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.[46]

V Mandatory Application of Accounting Standards in respect of Certain Non-corporate Bodies[47]

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 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[48]

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[49] (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.**

Mandatory Application of Accounting Standards in respect of Certain Non-corporate Bodies[50]

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 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[51]

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').

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[52]

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[53] 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 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[54]

Accounting Standard (AS) 11, *Accounting for the Effects of Changes in Foreign Exchange Rates,* as revised in 1995[55] , 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.[56] The standard shall, however, apply to translation of financial statements of foreign branches of the foreign exchange dealers.

X Accounting Standard (AS) 3, Cash Flow Statements, Made Mandatory[57]

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[58]

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.

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[59] , 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[60] , 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[61]

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.

(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[62]

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[63]

Accounting Standard (AS) 24, Discontinuing Operations, was issued in 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[64]

(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[65] , was made mandatory in respect of accounting periods commencing on or after 1.4.2001 for the following:

(a) 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.

(b) 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 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[66]

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 '[67] 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 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[68]

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 aplicability 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 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[69]

(iii) AS 4, Contingencies and Events Occurring After the Balance Sheet Date[70]

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

(v) AS 6, Depreciation Accounting[71]

(vi) AS 7 (revised 2002), Construction Contracts[72]
AS 7 (issued 1983), Accounting for Construction Contracts

(vii) AS 8, Accounting for Research and Development[73]

(viii) AS 9, Revenue Recognition

(ix) AS 10, Accounting for Fixed Assets[74]

(x) AS 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates[75]
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[76]

(xiii) AS 14, Accounting for Amalgamations[77]

(xiv) AS 15, Accounting for Retirement Benefits in the Financial Statements of Employers[78]

(xv) AS 16, Borrowing Costs

(xvi) AS 22, Accounting for Taxes on Income[79]

(xvii) AS 26, Intangible Assets

II. Exemptions/Relaxations for SMEs[80]

(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[81]

(iv) AS 24, Discontinuing Operations.[82]

(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[83] *:*

(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 (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[84]
- 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[85]

- 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 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.[86]

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.

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:

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[87] 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.

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 3, Cash Flow Statements

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

"Accounting Standard (AS) 17, 'Segment Reporting', 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[88] 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.

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:

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[89] 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.

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:

" Accounting Standard (AS) 19, 'Leases', issued by the Council of the Institute of Chartered Accountants of India,. 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[90] , 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.

(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 longerqualifies 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. 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[91] :

(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.

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. This Standard is mandatory in nature in respect of accounting periods commencing on or after 1-4-2004[92] 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.

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. 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[93]

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

"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.

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

(a) 1-4-2004[94] , 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.

(b) 1-4-2006[95] , 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 income 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[96] , for the enterprises, which do not fall in any of the categories in (a) and (b) above.

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.

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[97]

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.

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[98]

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:

(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[99]

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 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[100]

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:

(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[101]

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.

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[102] or a highly probable forecast transaction[103] .

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.[104]

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.

XXIII. Elimination of unrealised profits and losses under AS 21, AS 23 and AS 27[105]

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[106]

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

> "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."[107]

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[108]

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:***
>
> > ***(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 249 th 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[109]

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'[110] 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 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[111]

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 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.[112] 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)[113]

1 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. 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

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:

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. 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. 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[114]

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.

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[115]

1 The Institute of Chartered Accountants of India (ICAI) issued an 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[116] or a highly probable forecast transaction[117] (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.

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'[118]

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.[119]

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'[120]

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 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 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.[121]

XXXIV Deferment of Applicability of Accounting Standard (AS) 15, Employee Benefits (revised 2005)[122]

The Council of the Institute of Chartered Accountants of India (ICAI), at its 265 th meeting held on February 3-4, 2007, decided to defer the date of applicability of Accounting Standard (AS) 15, Employee Benefits (revised 2005), issued by the ICAI, keeping in view the practical difficulties and general hardship being faced by industry. As per the decision, AS 15 comes into effect in respect of accounting periods commencing on or after December 7, 2006 (instead of April 1, 2006, as stated in the said Standard) and is mandatory in nature from that date. Earlier application of the Standard is encouraged.

XXXV Withdrawal of the Announcement issued by the Council on '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'[123]

1 The Council of the Institute of Chartered Accountants of India had issued an Announcement on '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', which was published in the November 2003 issue of 'The Chartered Accountant' (pp. 497)[124]

2 Subsequent to the issuance of the above Announcement, the Ministry of Company Affairs (now known as the Ministry of Corporate Affairs) issued the Companies (Accounting Standards) Rules, 2006, by way of Notification in the Official Gazette dated 7 th December, 2006. As per Rule 3(2) of the said Rules, the Accounting Standards shall come into effect in respect of accounting periods commencing on or after the publication of these accounting standards under the said Notification.

3 AS 11, as published in the above Government Notification, carries a footnote that "it may be noted that the accounting treatment of exchange differences contained in this Standard is required to be followed irrespective of the relevant provisions of Schedule VI to the Companies Act, 1956".

4 In view of the above footnote to AS 11, the Council of the Institute of Chartered Accountants of India has decided at its 269 th meeting held on July 18, 2007, to withdraw the Announcement on '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', published in 'The Chartered Accountant' of November 2003. Accordingly, the accounting treatment of exchange differences contained in AS 11 notified as above is applicable and not the requirements of Schedule VI to the Act, in respect of accounting periods commencing on or after 7 th December, 2006.

XXXVI. 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'[125]

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 Subsequently, an Announcement was issued in June 2006, deferring the applicability of the Announcement issued in January 2006, to the accounting period(s) commencing on or after April 1, 2007.

3 As the proposed Accounting Standard on 'Financial Instruments: Recognition and Measurement', is still to be issued by the Council, the matter was reconsidered at the 269th meeting of the Council held on July 18, 2007, whereat it has been decided to further defer the applicability of the Announcement issued in January 2006, to accounting period(s) commencing on or after April 1, 2008.[126]

XXXVII Option to an entity to adopt alternative treatment allowed by way of amendment to the Transitional Provisions of Accounting Standard (AS) 15, Employee Benefits (revised 2005)[127]

An amendment by way of limited revision to Accounting Standard (AS) 15, *Employee Benefits* (revised 2005), has been made with a view to provide, inter alia, an option to an entity to charge additional liability arising upon the first application of the Standard as an expense over a period upto five years with a disclosure of un-recognised amount.

The Council of the Institute of Chartered Accountants of India has decided to give a one time option to the entities which have followed the treatment prescribed under the Transitional Provisions prior to the above-stated amendment to adopt the alternative treatment, allowed by way of the said amendment, from the date the Transitional Provision was so applied. An entity is, however, allowed to exercise this option only during the first accounting year commencing on or after 7th December, 2006. In case an entity chooses to adopt the option, the earlier accounting treatment followed in this respect should be reversed.

XXXVIII Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government[128]

The Council has considered the differences between the Accounting Standards issued by the Institute of Chartered Accountants of India and the Accounting Standards notified on 7th December, 2006 by the Central Government under the Companies (Accounting Standards) Rules, 2006. The Council decided the following scheme for harmonisation of differences:

1 Harmonisation of Differences between the Accounting Standards issued by the ICAI and those notified by the Government on account of language, presentation, etc.

The Council noted that following differences between the Accounting Standards issued by the ICAI and those notified by the Government are on account of language, presentation, etc.

(a) The Accounting Standards notified by the Government use the term 'accounting standard' or 'standard' instead of the word 'Statement' used in the Accounting Standards issued by the Institute of Chartered Accountants of India

(b) The Accounting Standards notified by the Government use the heading 'Main Principles' instead of 'Accounting Standard' appearing above the bold-italic paragraphs in respect of the old accounting standards issued by the ICAI. For example, the heading 'Main Principles' appears above paragraphs 24 to 27 of AS 1 notified by the Government (The other accounting standards notified by the Government in which this heading is used are AS 4, AS 6, AS 9, AS 10, AS 12, AS 13 and AS 14).

(c) Paragraph numbers of certain Accounting Standards, notified by the Government have been changed as compared to paragraph numbers of Accounting Standards issued by the ICAI. For instance, in AS 10, issued by the ICAI, numbers of paragraphs 9.2, 16.3 to 16.7, 37 and 38 appear even though there is no matter in these paragraphs as the same have been withdrawn due to subsequent issuance of Accounting Standards such as AS 16 and AS 26. In other words, the above paragraph numbers remain. However, in the Accounting Standard notified by the Government, the paragraph numbers have been changed by omitting the aforesaid paragraphs.

Also, numbering of certain sub-paragraphs, e.g., (a), (b), (c),…. etc., have been done in the Accounting Standards notified by the Government, whereas these were indicated as 'bullets' in Accounting Standards issued by the ICAI. For example, paragraph 20 of AS 14 and paragraph 24 of AS 18.

(d) The word 'Illustration' has been used in the Accounting Standards notified by the Government instead of 'Examples' as used in various Standards issued by the ICAI. Similarly, the word 'Appendix' used in the Accounting Standards issued by the ICAI, containing various examples at the end of an Accounting Standard, has been replaced by the word 'Illustrations' in the notified Accounting Standards.

(e) Accounting Standards issued by the ICAI, at certain places make reference to the Preface to the Statements of Accounting Standards. Since the Government has not notified the Preface, some of the requirements of the Preface, such as the consideration of materiality, have been included in the 'General Instructions' in the Rules. Accordingly, the Accounting Standards notified by the Government make reference to the General Instructions.

Since points 1(a) to 1(d), as mentioned above do not create any substantive difference between Accounting Standards issued by the ICAI and those notified by the Government, the Council decided to change the Standards issued by the ICAI in order to harmonise the two sets of Accounting Standards. Accordingly, changes are being made in the Accounting Standards and the amended Accounting Standards will be published in the Compendium of Accounting Standards 2008.

With regard to 1(e) above, the Council decided that no amendment was required in the Accounting Standards issued by the ICAI on account of the reference to 'General Instructions' in the Rules notified by the Government as compared to the 'Preface' in the Accounting Standards issued by the ICAI.

2 Harmonisation of differences caused by inclusion of the consensus portion of the Accounting Standards Interpretations (ASIs) issued by the ICAI in the Accounting Standards notified by the Government with certain exceptions.

The Council noted that consensus portion of certain ASIs have been included in the notified Accounting Standards as 'Explanation' to the relevant paragraphs as indicated below:

ASI No	**Title of the ASI**	**Relevant Paragraph(s) of the Accounting Standards**
1	Substantial Period of Time (Re. AS 16)	Paragraph 3.2 of Accounting Standard (AS) 16, '*Borrowing Costs*'
3	Accounting for Taxes on Income in the situations of Tax Holiday under Sections 80-IA and 80-IB of the Income-tax Act, 1961 (Re. AS 22)	Paragraph 13 of Accounting Standard (AS) 22, '*Accounting for Taxes on Income*'
4	Losses under the head Capital Gains (Re. AS 22)	Explanation 2 to paragraph 17 of Accounting Standard (AS) 22, '*Accounting for Taxes on Income*'
5	Accounting for Taxes on Income in the situations of Tax Holiday under Sections 10A and 10B of the Incometax Act, 1961 (Re. AS 22)	Paragraph 13 of Accounting Standard (AS) 22, '*Accounting for Taxes on Income*'

6	Accounting for Taxes on Income in the context of Section 115JB of the Income-tax Act, 1961 (Re. AS 22)	Paragraph 21 of Accounting Standard (AS) 22, '*Accounting for Taxes on Income*'
7	Disclosure of deferred tax assets and deferred tax liabilities in the balance sheet of a company (Re. AS 22)	Paragraph 30 of Accounting Standard (AS) 22, '*Accounting forTaxes on Income*'
8	Interpretation of the term 'Near Future' (Re. AS 21, AS 23 and AS 27)	Explanation (b) to paragraph 11 of Accounting Standard (AS) 21, '*Consolidated Financial Statements*' 7 of Accounting Standard (AS) 23, '*Accounting for Investments in Associates in Consolidated Financial Statements*' 28 of Accounting Standard (AS) 27, '*Financial Reporting of Interests in Joint Ventures*'
9	Virtual certainty supported by convincing evidence (Re. AS 22)	Explanation 1 to paragraph 17 of Accounting Standard (AS) 22,'*Accounting for Taxes on Income*'
10	Interpretation of paragraph 4(e) of AS 16 (Re. AS 16)	Paragraph 4(e) of Accounting Standard (AS) 16, '*Borrowing Costs*'
13	Interpretation of paragraphs 26 and 27 of AS 18 (Re. AS 18)	Paragraphs 26 and 27 of Accounting Standard (AS) 18, '*Related Party Disclosures*'
14	Disclosure of Revenue from Sales Transactions (Re. AS 9)	Paragraph 10 of Accounting Standard (AS) 9, '*Revenue Recognition*'
15	Notes to the Consolidated Financial Statements (Re. AS 21)	Paragraph 6 of Accounting Standard (AS) 21, '*Consolidated Financial Statements*'
16	Treatment of Proposed Dividend under AS 23 (Re. AS 23)	Explanation (b) to paragraph 6 of Accounting Standard (AS) 23, '*Accounting for Investments in Associates in Consolidated Financial Statements*'
17	Adjustments to the Carrying Amount of Investment arising from Changes in Equity not Included in the Statement of Profit and Loss of the Associate (Re. AS 23)	Explanation (a) to Paragraph 6 of Accounting Standard (AS) 23,'*Accounting for Investments in Associates in Consolidated Financial Statements*'
18	Consideration of Potential Equity Shares for Determining whether an Investee is an Associate under AS 23 (Re. AS 23)	Paragraph 4 of Accounting Standard (AS) 23, '*Accounting for Investments in Associates in Consolidated Financial Statements*'
19	Interpretation of the term 'intermediaries' (Re. AS 18)	Paragraph 13 of Accounting Standard (AS) 18, '*Related Party Disclosures*'
20	Disclosure of Segment Information (Re. AS 17)	Paragraph 38 of Accounting Standard (AS) 17, '*Segment Reporting*'
21	Non-Executive Directors on the Board-whether related parties (Re. AS 18)	Paragraph 14 of Accounting Standard (AS) 18, '*Related Party Disclosures*'

22	Treatment of Interest for determining Segment Expense (Re. AS 17)	Point (b) of the definition of'*Segment Expense*' under paragraph 5.6 of Accounting Standard (AS) 17, '*Segment Reporting*'
24	Definition of 'Control' (Re. AS 21)	Paragraph 10 of Accounting Standard (AS) 21, '*Consolidated Financial Statements*'
25	Exclusion of a subsidiary from consolidation (Re. AS 21)	Explanation (a) to paragraph 11 of Accounting Standard (AS) 21,'*Consolidated Financial Statements*'
26	Accounting for taxes on income in the consolidated financial statements (Re. AS 21)	Explanation (a) to paragraph 13 of Accounting Standard (AS) 21,'*Consolidated Financial Statements*'
28	Disclosure of parent's/venturer's shares in post-acquisition reserves of a subsidiary/jointly controlled entity (Re. AS 21 and AS 27)	Explanation (b) to paragraph 13 of Accounting Standard (AS) 21, '*Consolidated Financial Statements*' Paragraph 32 of Accounting Standard (AS) 27,'*Financial Reporting of Interests in Joint Ventures*'
30	Applicability of AS 29 to Onerous Contracts (Re. AS 29)	Paragraph 1(b) of Accounting Standard (AS) 29, '*Provisions, Contingent Liabilities and Contingent Assets*'

The Council decided to make the consensus portion of the above ASIs a part of the Accounting Standards issued by the Institute. Accordingly, the Accounting Standards are being amended to incorporate the consensus portion of the above mentioned ASIs as 'Explanation' to the relevant paragraphs.

Following ASIs have not been included in the notified Accounting Standards:

(i) ASI 2 Accounting for Machinery Spares (Re. AS 2 and AS 10)

(ii) ASI 11 Accounting for Taxes on Income in case of an Amalgamation (Re. AS 22)

(iii) ASI 12 Applicability of AS 20 (Re. AS 20)

(iv) ASI 23 Remuneration paid to key management personnel – whether a related party transaction (Re. AS 18)

(v) ASI 27 Applicability of AS 25 to Interim Financial Results (Re. AS 25)

(vi) ASI 29 Turnover in case of Contractors (Re. AS 7 (revised 2002))

The Council decided to withdraw the above ASIs and issue the same as Guidance Notes except ASI 2 and ASI 11. Guidance Notes are being separately issued.

3. Harmonisation of differences with regard to applicability of Accounting Standards to various Levels of entities.[129]

The Council noted that as per its Announcement, 'Applicability of Accounting Standards', issued by the ICAI (published in 'The Chartered Accountant', November 2003), there are three levels of entities. Level II entities and Level III entities as per the said Announcement are considered to be the Small and Medium Entities (SMEs). On the other hand, as per the Accounting Standards notified by the Government, there are two levels, namely, Small and Medium- sized Companies (SMCs) as defined in the Rules and companies other than SMCs. Non-SMCs are required to comply with all the Accounting Standards in their entirety, while certain exemptions/ relaxations have been given to SMCs. Certain differences in the criteria for classification of the levels were also noted.

In this regard, the Council decided that the ICAI should continue to have three levels as at present instead of two as per the Government notification, as below:

(a) Level I should be as per the existing Level I, modified keeping in view the definition of SMC under the Government Notification except co-operative banks should be included along with the banks and reference to industrial, commercial and business reporting entities should be retained as part of the criteria in (vi) and (vii) of the existing ICAI criteria for Level I.

(b) Level II should include companies other than those covered under Level I and the non-corporate entities having the same criteria as at present for ICAI Level II. The exemptions or relaxations available to this Level should be the same as available to SMCs under the Government Notification.

(c) Level III should cover only non-corporates not covered in Levels I and II. Exemptions or relaxations available at Level III as at present should continue to be available at this Level.

(d) Exemptions or relaxations available to enterprises employing less than 50 employees during the year in respect of AS 15, *Employee Benefits* (revised 2005), should continue to be available to non-corporate entities under Levels II and III.

As a consequence to the above decision of the Council to harmonise with the notification:

(i) the harmonised criteria for classification of entities and other instructions regarding SMEs are given in Annexure I;

(ii) applicability of Accounting Standards to companies as per the Government Notification is given in Annexure II; and

(iii) applicability of Accounting Standards to non-corporate entities is given in Annexure III.

The Council decided that the above requirements with regard to SMEs should be applicable to non-corporates for accounting periods commencing on or after 1-4-2008.

Annexure I

Harmonised Criteria for Classification of Entities

(1) Criteria for classification of non-corporate entities as decided by the Institute of Chartered Accountants of India

Level I Entities

Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

(i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.

(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.

(v) Holding and subsidiary entities of any one of the above.

Level II Entities (SMEs)

Non-corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees forty lakh but does not exceed rupees fifty crore in the immediately preceding accounting year.

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

Level III Entities (SMEs)

Non-corporate entities which are not covered under Level I and Level II are considered as Level III entities.

Additional requirements

(1) An SME which does not disclose certain information pursuant to the exemptions or relaxations given to it should disclose (by way of a note to its financial statements) the fact that it is an SME and has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III, as the case may be.

(2) Where an entity, being covered in Level II or Level III, had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be covered in Level II or Level III, as the case may be. The fact that the entity was covered in Level II or Level III, as the case may be, in the previous period and it had availed of the exemptions or relaxations available to that Level of entities should be disclosed in the notes to the financial statements.

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

(4) If an entity covered in Level II or Level III opts not to avail of the exemptions or relaxations available to that Level of entities in respect of any but not all of the Accounting Standards, it should disclose the Standard(s) in respect of which it has availed the exemption or relaxation.

(5) If an entity covered in Level II or Level III desires to disclose the information not required to be disclosed pursuant to the exemptions or relaxations available to that Level of entities, it should disclose that information in compliance with the relevant Accounting Standard.

(6) An entity covered in Level II or Level III may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard:

Provided that such a partial exemption or relaxation and disclosure should not be permitted to mislead any person or public.

(7) In respect of Accounting Standard (AS) 15, *Employee Benefits*, exemptions/ relaxations are available to Level II and Level III entities, under two sub-classifications, viz., (i) entities whose average number of persons employed during the year is 50 or more, and (ii) entities whose average number of persons employed during the year is less than 50. The requirements stated in paragraphs (1) to (6) above, mutatis mutandis, apply to these sub-classifications.

(2) Criteria for classification of companies under the Companies (Accounting Standards) Rules, 2006

Small and Medium-Sized Company (SMC) as defined in Clause 2(f) of the Companies (Accounting Standards) Rules, 2006:

(f) “Small and Medium Sized Company” (SMC) means, a company-

(i) whose equity or debt securities are not listed or are not in the text-align: left;">process of listing on any stock exchange, whether in India or outside India;

(ii) which is not a bank, financial institution or an insurance company;

(iii) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;

(iv) which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and

(v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Explanation: For the purposes of clause (f), a company shall qualify as a Small and Medium Sized Company, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

Non-SMCs

Companies not falling within the definition of SMC are considered as Non-SMCs.

Instructions

A. General Instructions

1 SMCs shall follow the following instructions while complying with Accounting Standards under these Rules:-

1.1 the SMC which does not disclose certain information pursuant to the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an SMC and has complied with the Accounting Standards insofar as they are applicable to an SMC on the following lines:

"The Company is a Small and Medium Sized Company (SMC) as defined in the General Instructions in respect of Accounting Standards notified under the Companies Act, 1956. Accordingly, the Company has complied with the Accounting Standards as applicable to a Small and Medium Sized Company."

1.2 Where a company, being an SMC, has qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be an SMC. The fact that the company was an SMC in the previous period and it had availed of the exemptions or relaxations available to SMCs shall be disclosed in the notes to the financial statements.

1.3 If an SMC opts not to avail of the exemptions or relaxations available to an SMC in respect of any but not all of the Accounting Standards, it shall disclose the standard(s) in respect of which it has availed the exemption or relaxation.

1.4 If an SMC desires to disclose the information not required to be disclosed pursuant to the exemptions or relaxations available to the SMCs, it shall disclose that information in compliance with the relevant accounting standard.

1.5 The SMC may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard:

Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead any person or public.

B. Other Instructions

Rule 5 of the Companies (Accounting Standards) Rules, 2006, provides as below:
"5. An existing company, which was previously not a Small and Medium Sized Company (SMC) and subsequently becomes an SMC, shall not be qualified for exemption or relaxation in respect of Accounting Standards available to an SMC until the company remains an SMC for two consecutive accounting periods."

Annexure II

Applicability of Accounting Standards to Companies

(I) Accounting Standards applicable to all companies in their entirety for accounting periods commencing on or after 7th December, 2006

AS 1 Disclosures of Accounting Policies

AS 2 Valuation of Inventories

AS 4 Contingencies and Events Occurring After the Balance Sheet Date

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

AS 6 Depreciation Accounting

AS 7 Construction Contracts (revised 2002)

AS 9 Revenue Recognition

AS 10 Accounting for Fixed Assets

AS 11 The Effects of Changes in Foreign Exchange Rates (revised 2003)

AS 12 Accounting for Government Grants

AS 13 Accounting for Investments

AS 14 Accounting for Amalgamations

AS 16 Borrowing Costs

AS 18 Related Party Disclosures

AS 22 Accounting for Taxes on Income

AS 24 Discontinuing Operations

AS 26 Intangible Assets

(II) Exemptions or Relaxations for SMCs as defined in the Notification

(A) Accounting Standards not applicable to SMCs in their entirety:

AS 3 Cash Flow Statements.

AS 17 Segment Reporting

(B) Accounting Standards not applicable to SMCs since the relevant Regulations require compliance with them only by certain Non-SMCs:

(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 requirements have been given to SMCs:

(i) Accounting Standard (AS) 15, Employee Benefits (revised 2005)

(a) 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);

(b) 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;

(c) 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 companies should actuarially determine and provide for the accrued liability in respect of defined benefit plans by using the Projected Unit Credit Method and 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 companies should disclose actuarial assumptions as per paragraph 120(l) of the Standard; and

(d) 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 companies should actuarially determine and provide for the accrued liability in respect of other long- term employee benefits by using the Projected Unit Credit Method and 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.

(ii) AS 19, Leases

Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a) and (f); and 46 (b) and (d) relating to disclosures are not applicable to SMCs.

(iii) AS 20, Earnings Per Share

Disclosure of diluted earnings per share (both including and excluding extraordinary items) is exempted for SMCs.

(iv) AS 28, Impairment of Assets

SMCs 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. Consequently, if an SMC 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 SMC. Further, such an SMC need not disclose the information required by paragraph 121(g) of the Standard.

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

Paragraphs 66 and 67 relating to disclosures are not applicable to SMCs.

(D) AS 25, Interim Financial Reporting, does not require a company to present interim financial report. It is applicable only if a company is required or elects to prepare and present an interim financial report. Only certain Non-SMCs are required by the concerned regulators to present interim financial results, e.g,

quarterly financial results required by the SEBI. Therefore, the recognition and measurement requirements contained in this Standard are applicable to those Non-SMCs for preparation of interim financial results.

Annexure III

Applicability of Accounting Standards to Non-corporate Entities (As on 1.4.2008)

I Accounting Standards applicable to all Non-corporate Entities in their entirety (Level I, Level II and Level III)

AS 1 Disclosures of Accounting Policies

AS 2 Valuation of Inventories

AS 4 Contingencies and Events Occurring After the Balance Sheet Date

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

AS 6 Depreciation Accounting

AS 7 Construction Contracts (revised 2002)

AS 9 Revenue Recognition

AS 10 Accounting for Fixed Assets

AS 11 The Effects of Changes in Foreign Exchange Rates (revised 2003)

AS 12 Accounting for Government Grants

AS 13 Accounting for Investments

AS 14 Accounting for Amalgamations

AS 16 Borrowing Costs

AS 22 Accounting for Taxes on Income

AS 26 Intangible Assets

(II) Exemptions or Relaxations for Non-corporate Entities falling in Level II and Level III (SMEs)

(A) Accounting Standards not applicable to Non-corporate Entities falling in Level II in their entirety:

AS 3 Cash Flow Statements

AS 17 Segment Reporting

(B) Accounting Standards not applicable to Non-corporate Entities falling in Level III in their entirety:

AS 3 Cash Flow Statements

AS 17 Segment Reporting

AS 18 Related Party Disclosures

AS 24 Discontinuing Operations

(C) Accounting Standards not applicable to all Non-corporate Entities since the relevant Regulators require compliance with them only by certain Level I entities:[130]

(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)

(D) Accounting Standards in respect of which relaxations from certain requirements have been given to Non-corporate Entities falling in Level II and Level III (SMEs):

(i) Accounting Standard (AS) 15, Employee Benefits (revised 2005)

(1) Level II and Level III Non-corporate entities whose average number of persons employed during the year is 50 or more are exempted from the applicability of the following paragraphs:

(a) 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);

(b) 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;

(c) 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 entities should actuarially determine and provide for the accrued liability in respect of defined benefit plans by using the Projected Unit Credit Method and 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 entities should disclose actuarial assumptions as per paragraph 120(l) of the Standard; and

(d) 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 entities should actuarially determine and provide for the accrued liability in respect of other long-term employee benefits by using the Projected Unit Credit Method and 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.

(2) Level II and Level III Non-corporate entities whose average number of persons employed during the year is less than 50 are exempted from the applicability of the following paragraphs:

(a) 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);

(b) 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;

(c) 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 entities 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; and

(d) 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 entities 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.

(ii) AS 19, Leases

Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a) and (f); and 46 (b) and (d) relating to disclosures are not applicable to non-corporate entities falling in Level II .

Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); and 46 (b), (d) and (e) relating to disclosures are not applicable to Level III entities.

(iii) AS 20, Earnings Per Share

Diluted earnings per share (both including and excluding extraordinary items) is not required to be disclosed by non-corporate entities falling in Level II and Level III and information required by paragraph 48(ii) of AS 20 is not required to be disclosed by Level III entities if this standard is applicable to these entities.

(iv) AS 28, Impairment of Assets

Non-corporate entities falling in Level II and Level III 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. Consequently, if a non-corporate entity falling in Level II or Level III 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 entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard.

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

Paragraphs 66 and 67 relating to disclosures are not applicable to non-corporate entities falling in Level II and Level III.

(E) AS 25, Interim Financial Reporting, does not require a non-corporate entity to present interim financial report. It is applicable only if a non-corporate entity is required or elects to prepare and present an interim financial report. Only certain Level I non-corporate entities are required by the concerned regulators to present interim financial results, e.g., quarterly financial results required by the SEBI. Therefore, the recognition and measurement requirements contained in this Standard are applicable to those Level I non-corporate entities for preparation of interim financial results.

XXXIX ACCOUNTING FOR DERIVATIVES[131]

1. Certain issues have been raised with regard to the foreign currency derivative exposures of various corporates that are not being fully accounted for. These exposures may translate into heavy losses due to fluctuations in the foreign exchange rates. The matter was considered by the Council of the ICAI at its meeting held on March 27-29, 2008. The Council decided to clarify the best practice treatment to be followed for all derivatives, which is contained in the following paragraphs.

2. It may be noted that although the ICAI has issued AS 30, *Financial Instruments: Recognition and Measurement*, which contains accounting for derivatives, it becomes recommendatory from 1.04.2009 and mandatory from 1.04.2011. In this scenario, the Council expressed the view that since the aforesaid Standard contains appropriate accounting for derivatives, the same can be followed by the entities, as the earlier adoption of a standard is always encouraged.

3. In case an entity does not follow AS 30, keeping in view the principle of prudence as enunciated in AS 1, 'Disclosure of Accounting Policies', the entity is required to provide for losses in respect of all outstanding derivative contracts at the balance sheet date by marking them to market.

4. The entity needs to disclose the policy followed with regard to accounting for derivatives in its financial statements.

In case AS 30 is followed by the entity, a disclosure of the amounts recognised in the financial statements should be made.

In case AS 30 is not followed, the losses provided for as suggested in paragraph 3 above should be separately disclosed by the entity.

5. The auditors should consider making appropriate disclosures in their reports if the aforesaid accounting treatment and disclosures are not made.

6. In case of forward contracts to which AS 11, '*The Effects of Changes in Foreign Exchange Rates*', applies, the entity needs to fully comply with the requirements of AS 11. Accordingly, this Announcement does not apply to such contracts.

7. This clarificatory Announcement applies to financial statements for the period ending March 31, 2008, or thereafter.

XL Announcements on 'Accounting for exchange differences arising on a justify;">forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction' withdrawn.[132]

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 was under formulation, the said Announcement prescribed 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. An Announcement prescribing the applicability date of this Announcement was issued in February 2006.

2. Subsequently, an Announcement was issued in June 2006, deferring the applicability of the Announcement issued in January 2006, to the accounting period(s) commencing on or after April 1, 2007. The Council, at its 269 th meeting, held on July 18, 2007, decided to further defer the applicability of the Announcement issued in January 2006, to accounting period(s) commencing on or after April 1, 2008.

3. The Council, at its 277th meeting, held on March 27 to 29, 2008, noted that Accounting Standard (AS) 30, '*Financial Instruments: Recognition and Measurement*'[133] , has already been issued. Accordingly, it has decided to withdraw all the Announcements mentioned in the above paragraphs.

XLI Application of AS 30, *Financial Instruments: Recognition and Measurement*.[134]

1. AS 30 was issued by the Institute of Chartered Accountants of India (ICAI) in 2007 but has not yet been notified by the Government under Section 211(3C) of the Companies Act, 1956. As per this standard;

"Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement, issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. This Accounting Standard will become mandatory in respect of accounting periods commencing on or after 1-4- 2011 for all commercial, industrial and business entities except to a Small and Medium sized Entity...."

2. AS 30 further states;

"From the date this Accounting Standard becomes recommendatory in nature, the following Guidance Notes issued by the Institute of Chartered Accountants of India, stand withdrawn:

(i) Guidance Note on Guarantees & Counter Guarantees Given by the Companies.

(ii) Guidance Note on Accounting for Investments in the Financial Statements of Mutual Funds.

(iii) Guidance Note on Accounting for Securitisation.

(iv) Guidance Note on Accounting for Equity Index and Equity Stock Futures and Options."

3. Subsequent to the issuance of AS 30, the world witnessed financial crisis which raised issues with regard to accounting treatment of financial instruments. Accordingly, various accounting standards setting bodies including the ICAI examined these aspects. Insofar as International Accounting Standards Board is concerned certain modifications have been made in the corresponding International Accounting Standard, viz., IAS 39, *Financial Instruments: Recognition and Measurement* . The International Accounting Standards Board has also issued IFRS 9, *Financial Instruments,* which replaces certain requirements contained in IAS 39 and it is expected that ultimately the entire IAS 39 on which AS 30 is based is not expected to be replaced before June 30, 2011 as presently committed by IASB. Accordingly, AS 30 is not expected to continue in its present form including for those entities for which converged Indian Accounting Standards will come into force from 1st April, 2011. In this changed scenario, the Council has reconsidered the matter regarding the status of the existing AS 30 and has decided to issue the following clarification for the guidance of the Members and others concerned.

4. It is clarified that in respect of the financial statements or other financial information for the accounting periods commencing on or after 1st April 2009 and ending on or before 31st March 2011, the status of AS 30 would be as below:

(i) To the extent of accounting treatments covered by any of the existing notified accounting standards (eg. AS 11, AS 13, etc.), the existing accounting standards would continue to prevail over AS 30.

(ii) In cases where a relevant regulatory authority has prescribed specific regulatory requirements (eg. Loan impairment, investment classification or accounting for securitizations by the RBI, etc.), the prescribed regulatory requirements would continue to prevail over AS 30.

(iii) The preparers of the financial statements are encouraged to follow the principles enunciated in the accounting treatments contained in AS 30. The aforesaid is, however, subject to (i) and (ii) above.

5.From 1st April 2011 onwards,

(i) the entities to which converged Indian Accounting Standards will be applied as per the roadmap issued by MCA, the Indian Accounting Standard (Ind AS) 39, *Financial Instruments; Recognition and Measurement,* will apply.

(ii) for entities other than those covered under paragraph 5(i) above, the status of AS 30 will continue as clarified in paragraph 4 above.

6. The above mentioned clarifications would also be relevant to the existing AS 31, *Financial Instruments: Presentation* and AS 32, *Financial Instruments: Disclosures* as well as for Ind AS 32, *Financial Instruments: Presentation* and Ind AS 107, *Financial Instruments: Disclosures*, after 1st April 2011 onwards.

XLII Revision in the criteria for classifying Level II non-corporate entities[135]

1. The Council of the Institute with a view to harmonise the differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules, 2006, in February, 2008 issued the announcement titled as ***'Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government'*** [136] wherein the Council prescribed the criteria for classifying the non-corporate entities into Level I, Level II and Level III. As per the announcement Level II entities are:

2. Non-corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) ***exceeds rupees forty lakh but does not exceed rupees fifty crore*** *in the immediately preceding*

accounting year.

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

3. The Council of the Institute at its 321st meeting held on January 10-12, 2013 at New Delhi, considering recent changes in the enhancement of tax audit limit, decided to change the applicability of Accounting Standards for Level II entities from Rs. 40 lakhs to Rs. 1 Crore with effect from the **accounting year commencing on or after April 01, 2012.**

4. Accordingly, from the accounting year commencing on or after April 1st , 2012, criteria for classification of Level II entities is as follows:-

Level II Entities (SMEs)

Non-corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) ***exceeds rupees one crore but does not exceed rupees fifty crore*** *in the immediately preceding accounting year.*

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

XLIII Presentation of Foreign Currency Monetary Item Translation Difference Account[137]

1. In the year 2009, the Ministry of Corporate Affairs amended Accounting Standard (AS) 11, *The Effects of Changes in Foreign Exchange Rates* by inserting Paragraph 46. As per Paragraph 46, in respect of accounting periods commencing on or after 7th December, 2006, and ending on or before 31st March, 2011, at the option of the enterprise, exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, insofar as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset, and in other cases, can be accumulated in a “Foreign Currency Monetary Item Translation Difference Account” in the enterprise’s financial statements and amortised over the balance period of such long-term asset/liability but not beyond 31 st March, 2011, by recognition as income or expense in each such periods.

2. On 29th December, 2011, the MCA, through the Companies (Accounting Standards) Amendment Rules, 2011, further extended the date of amortisation of the balance in the FCMITDA to 31st March, 2020 instead of 31st March, 2011. The MCA on December 29, 2011, inserted paragraph 46A in the AS 11, *The Effects of Changes in Foreign Exchange Rates* through Companies (Accounting Standards) (Second Amendment) Rules, 2011, on similar lines as paragraph 46.

3. As in the Revised Schedule VI format, no line item has been specified for the presentation of “Foreign Currency Monetary Item Translation Difference Account (FCMITDA)”, the Council of the Institute at its 324th meeting held on March 24-26, 2013 at New Delhi, considered the issue regarding the presentation of the FCMITDA in the balance sheet.

4. The Council noted that the *Framework on Preparation and Presentation of Financial Statement*s issued by ICAI, defines an asset as follows:

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

Where the balance in FCMITDA represents foreign currency translation loss, it does not meet the above definition of 'asset' as it is neither a resource nor any future economic benefit would flow to the entity therefrom. Accordingly, such balance cannot be reflected as an asset.

Accordingly, the Council decided that debit or credit balance in FCMITDA should be shown on the "Equity and Liabilities" side of the balance sheet under the head 'Reserves and Surplus' as a separate line item.

5. The aforesaid decision of the Council supersedes the following Frequently Asked Question on AS 11 notification – Companies (Accounting Standards) Amendment Rules, 2009 (G.S.R. 225 (E) dt. 31.3.09) issued by Ministry of Corporate Affairs on May 18, 2009, which was issued by the Accounting Standards Board of ICAI on May 18, 2009:

"(14) How *'Foreign Currency Monetary Item Translation Difference Account' should be presented in the Balance Sheet?*

Response

The 'Foreign Currency Monetary Item Translation Difference Account' should be shown as a separate line item in the Balance Sheet, in line with treatment given to Deferred Tax Asset/Liability, i.e. after the head 'Investments' or after the head 'Unsecured Loans' as the case may be and separately from current assets and current liabilities."

XLIV Insertion of new paragraph 46 in AS 11, *The Effects of Changes in Foreign Exchange Rates,* issued by The Institute of Chartered Accountants of India, for their applicability to entities other than companies

1. The Ministry of Corporate Affairs, Government of India, inserted paragraph 46 by notification dated 31st March, 2009 which was subsequently modified in 2011 by notification dated May 11, 2011 and notification dated 29th December, 2011 and paragraph 46A in AS 11, inserted by notification dated 29th December, 2011, after paragraph 45 of AS 11 notified under the Companies (Accounting Standards) Rules, 2006.

2. The Council of the Institute of Chartered Accountants of India (ICAI) considered the proposal for providing the option available to the companies under paragraphs 46 and 46A of AS 11 notified by the Ministry of Corporate Affairs to those entities to which the Accounting Standards notified under Companies Act, 1956 are not applicable. The Council decided that the options available under paragraphs 46 and 46A of AS 11 notified by the Central Government be also made available to the aforementioned entities.

3. In view of the above, paragraphs 46 and 46A introduced in AS 11, modified from time to time, as applicable to companies, shall be deemed to be introduced in AS 11 issued by ICAI for entities to which the Companies Act is not applicable with effect from the accounting periods as stated in paragraph 1 above as follows:

"46 (1) In respect of accounting periods commencing on or after the 7th December 2006, (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and should be depreciated over the balance life of the asset, and in other cases, can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortised over the balance period of such long term asset or liability, by recognition as income or expense in each of such periods, with the exception of exchange differences dealt with in accordance with the provisions of paragraph 15.

(2) To exercise the option referred to in sub-paragraph (1), an asset or liability should be designated as a long term foreign currency monetary item, if the asset or liability is expressed in a foreign currency and has a term of twelve months or more at the date of origination of the asset or the liability:

Provided that the option exercised by the enterprise should disclose the fact of such option and of the amount remaining to be amortised in the financial statements of the period in which such option is exercised and in every subsequent period so long as any exchange difference remains unamortised."

XLV Amendment to AS 2, 4, 6, 10, 13, 14, 21 and 29 issued by the Institute of Chartered Accountants of India applicable to Non-corporate entities, pursuant to issuance of amendments to Accounting Standards by the MCA[138]

1. The Council of the Institute of Chartered Accountants of India (ICAI) at its 359th meeting held on August 16-17, 2016 noted that the Ministry of Corporate Affairs (MCA) has notified Companies (Accounting Standards) Amendment Rules, 2016 (G.S.R. 364(E) dated 30.03.2016) and amended the following Accounting Standards and omitted AS 6, Depreciation Accounting, issued under Companies (Accounting Standards) Rules, 2006[139] :

(i) AS 2, Valuation of Inventories

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

(iii) AS 10, Property, Plant and Equipment

(iv) AS 13, Accounting for Investments

(v) AS 14, Accounting for Amalgamations

(vi) AS 21, Consolidated Financial Statements

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

2. With the view to harmonise **Accounting Standards issued by the ICAI for non-corporate entities** and the amendments to the Accounting Standards notified by the Central Government, the Council decided that the amendments notified by the Central Government after appropriate changes shall also be incorporated in the Accounting Standards issued by the ICAI.

3. In view of the above, following changes are made in **Accounting Standards issued by the ICAI for non-corporate entities:**

(i) AS 6, *Depreciation Accounting* stands withdrawn.

(ii) The following Accounting Standards are amended:

(a) AS 2, *Valuation of Inventories*

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

(c) AS 10, *Property, Plant and Equipment*

(d) AS 13, *Accounting for Investments*

(e) AS 14, *Accounting for Amalgamations*

(f) AS 21, *Consolidated Financial Statements*

(g) AS 29, *Provisions, Contingent Liabilities and Contingent Assets*

The amendment can be accessed at below link-http-//resource.cdn.icai.org/43440asb33184a.pdf.

4. Amendments as stated in point (3) above will come into effect prospectively in respect of accounting periods commencing on or after April 1, 2017. However, early application of the aforementioned amendments is permitted.

XLVI Withdrawal of the Accounting Standards; AS 30, Financial Instruments: Recognition and Measurement, AS 31, Financial Instruments: Presentation, AS 32, Financial Instruments: Disclosures[140]

1. The Council of the Institute of Chartered Accountants of India (ICAI) issued Accounting Standard (AS) 30, *Financial Instruments: Recognition and Measurement,* Accounting Standard (AS) 31, *Financial Instruments: Presentation* in year 2007 and Accounting Standard (AS) 32, *Financial Instruments: Disclosures* in year 2008. These Accounting Standards were to come into effect in respect of accounting periods commencing on or after April 1, 2009, and were to be recommendatory in nature for an initial period of two years, thereafter, these were to become mandatory in respect of accounting periods commencing on or after April 1, 2011.

2. Owing to global financial crisis which raised issues regarding accounting treatment of financial instruments, various accounting standards setting bodies including the ICAI examined these aspects. Later, the ICAI withdrew the recommendatory as well as mandatory status of AS 30, AS 31 and AS 32 in March 2011 by means of an announcement. The announcement clarified that considering that International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*, issued by the International Accounting Standards Board (IASB), on which AS 30 was based, was under revision by the IASB. AS 30 was not expected to be continued in its present form, i.e., was expected to be revised. Further, the status of AS 30, AS 31 and AS 32 was clarified as below:

> "(i) To the extent of accounting treatments covered by any of the existing notified Accounting Standards (e.g. AS 11, AS 13 etc.), the existing Accounting Standards would continue to prevail over AS 30, AS 31 and AS 32.
>
> (ii) In cases where a relevant regulatory authority has prescribed specific regulatory requirements (e.g. Loan impairment, investment classification or accounting for securitisations by the RBI, etc.), the prescribed regulatory requirements would continue to prevail over AS 30, AS 31, AS 32.
>
> (iii) The preparers of the financial statements are encouraged to follow the principles enunciated in the accounting treatments contained in AS 30, AS 31 and AS 32 subject to (i) and (ii) above."

3. Thereafter, the ICAI issued a *Guidance Note on Accounting for Derivative Contracts,* in June 2015, effective from accounting periods beginning on or after 1st April, 2016; its earlier application is also encouraged. The Guidance Note stated that from the date this Guidance Note comes into effect, application of (AS) 30, *Financial Instruments: Recognition and Measurement*, stands withdrawn to the extent of the guidance covered for accounting for derivatives is within the scope of *Guidance Note on Accounting for Derivative Contracts.*

4. Apart from the above, the Council at its 360th meeting held on November 7-9, 2016, noted that with implementation of Indian Accounting Standards (Ind AS) in India, many companies will be preparing their financial statements as per Ind AS, which includes Indian Accounting Standards on financial instruments which are based on current IFRS/ IAS issued by International Accounting Standards Board (IASB).

5. In view of the above, the Council noted that there may not be any users of (AS) 30, *Financial Instruments: Recognition and Measurement*, (AS) 31, *Financial Instruments: Presentation* and (AS) 32, *Financial Instruments: Disclosures,* and retaining these Accounting Standards will create confusion. Accordingly, the Council decided to withdraw Accounting Standards (AS) 30, *Financial Instruments: Recognition and Measurement*, (AS) 31, *Financial Instruments: Presentation*, (AS) 32, *Financial Instruments: Disclosures.* An announcement 'Application of (AS) 30, *Financial Instruments: Recognition and Measurement'* issued by ICAI in March 2011 on status of AS 30, AS 31 and AS 32 also stands withdrawn.

XLVII. Announcement providing Temporary Exceptions to Hedge Accounting prescribed under Guidance Note on Accounting for Derivative Contracts due to Interest Rate Benchmark Reform[141]

Interest Rate Benchmark Reform such as Interbank Offered Rates (IBORs), e.g., LIBOR, TIBOR, NIBOR, etc. play an important role in global financial markets and index (benchmark) a variety of financial products including derivatives. Market developments have undermined the reliability of some existing benchmarks. Consequently, some major interest rate benchmarks will cease to be published across the globe after December 2021. The ongoing reform in IBOR, will impact the way financial information is accounted for in the financial statements.

With international developments taking place, global financial reporting Standards have been amended to address the issues affecting financial reporting arising from these reforms. Two groups of accounting issues that could affect financial reporting have been identified globally:

Phase 1- Pre-replacement issues — issues affecting financial reporting in the period during which there is uncertainty about the timing or the amount of interest rate benchmark-based cash flows. To address these issues, the amendments have been made to the relevant IFRS Standards. In India, corresponding changes have been made under Ind AS that are effective from April 1, 2020.
For the entities that do not apply Ind AS, the provisions regarding hedge accounting are prescribed in the *Guidance Note on Accounting for Derivative Contracts* issued by the Institute of Chartered Accountants of India in year 2015

This Announcement is issued in order to provide corresponding temporary relief to the entities not following Ind AS having transactions in financial market products, for accounting periods beginning on or after April 1, 2020.

Phase 2- Replacement issues— issues affecting financial reporting when the uncertainty regarding the timing and the amount of interest rate benchmark-based cash flows is resolved and hedging relationships are affected as a result of the reform. IFRS Standards have been amended to provide practical expedient for modifications of the financial contracts that are affected by IBOR Reform with the view to avoid undue impact on the financial statements where the transactions are economically equivalent to the previous basis (i.e., before and after IBOR reforms). In absence of such practical expedient, due to change in benchmark rate, there could be unintended consequences, such as discontinuation of hedge accounting, etc.

In India, corresponding changes are being made under Ind AS to be effective from accounting periods beginning on or after April 1, 2021. Corresponding amendments to provide additional temporary exceptions to hedge accounting for entities not following Ind AS are under formulation and will be issued in due course.

In the aforementioned background and to address the exigent issue, this Announcement prescribes the temporary relief to the entities not following Ind AS corresponding to that provided in Phase 1 to the entities following Ind AS.

Temporary exceptions from applying specific hedge accounting requirements prescribed in *Guidance Note on Accounting for Derivative Contracts*

1 An entity shall apply paragraphs 4–11 and paragraphs 13-14 to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

(a) the interest rate benchmark designated as a hedged risk; and/or

(b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

2 For the purpose of applying paragraphs 4–11, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'.[142]

3 Paragraphs 4–11 provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements prescribed in the *Guidance Note for Accounting for Derivative Contracts for hedging relationships directly affected by interest rate benchmark reform.*

Highly probable requirement for cash flow hedges

4 For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.

Reclassifying the amount accumulated in the cash flow hedge reserve

5 For the purpose of applying the requirements in the Guidance Note in order to determine whether the hedged future cash flows are probable to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.

Assessing the economic relationship between the hedged item and the hedging instrument

6 For the purpose of applying the requirements in paragraph 44(i) of the Guidance Note, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Designating a component of an item as a hedged item

7 For a hedge of a non-contractually specified[143] benchmark component of interest rate risk, if any, an entity shall apply the requirement that the risk component shall be separately identifiable only at the inception of the hedging relationship.

End of application of temporary exceptions from applying specific hedge accounting requirements

8. An entity shall prospectively cease applying paragraph 4 to a hedged item at the earlier of:

(a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and

(b) when the hedging relationship that the hedged item is part of is discontinued.

9. An entity shall prospectively cease applying paragraph 5 at the earlier of:

(a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item; and

(b) when the entire amount accumulated in the cash flow hedge reserve with respect to that discontinued hedging relationship has been reclassified to profit or loss.

10. An entity shall prospectively cease applying paragraph 6:

(a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark- based cash flows of the hedged item; and

(b) to a hedging instrument, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 10(a) or the date specified in paragraph 10(b), the entity shall prospectively cease applying paragraph 6 to that hedging relationship at the date of discontinuation.

11. When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 4–6 to an individual item or financial instrument in accordance with paragraphs 8, 9, or 10, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

Disclosures -Uncertainty arising from interest rate benchmark reform

12. For hedging relationships to which an entity applies the exceptions set out in paragraphs 4–11, an entity shall disclose:

(a) the significant interest rate benchmarks to which the entity's hedging relationships are exposed;

(b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;

(b) how the entity is managing the process to transition to alternative benchmark rates;

(d) a description of significant assumptions or judgements the entity made in applying these paragraphs (for example, assumptions or judgements about when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows); and

(e) the nominal amount of the hedging instruments in those hedging relationships.

Effective Date

13. An entity shall apply the temporary exceptions stated in paragraphs 1 - 12 and 14 for annual periods beginning on or after 1 s t April 2020.

14. The requirements of this Announcement apply only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies these requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies these requirements.

XLVIII. Criteria for classification of Non-company entities for applicability of Accounting Standards[144]

The Council, at its 400th meeting, held on March 18-19, 2021, considered the matter relating to applicability of Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI), to Non-company entities (Enterprises). The scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2020.

1. For the purpose of applicability of Accounting Standards, Non-company entities are classified into four categories, viz., Level I, Level II, Level III and Level IV.
Level I entities are large size entities, Level II entities are medium size entities, Level III entities are small

size entities and Level IV entities are micro entities. Level IV, Level III and Level II entities are referred to as Micro, Small and Medium size entities (MSMEs). The criteria for classification of Non-company entities into different levels are given in Annexure 1.

The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME' respectively.

2. Level I entities are required to comply in full with all the Accounting Standards.

3. Certain exemptions/relaxations have been provided to Level II, Level III and Level IV Non-company entities. Applicability of Accounting Standards and exemptions/relaxations to such entities are given in Annexure 2.

4. This Announcement supersedes the earlier Announcement of the ICAI on ' **Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government'** issued in February 2008, to the extent it prescribes the criteria for classification of Non-company entities (Non- corporate entities) and applicability of Accounting Standards to non- company entities, and the Announcement ' **Revision in the criteria for classifying Level II non-corporate entities**' issued in January 2013.

5. This Announcement is not relevant for Non-company entities who may be required to follow Ind AS as per relevant regulatory requirements applicable to such entities.

6. The changes arising from this Announcement will be incorporated in the Accounting Standards while publishing the updated Compendium of Accounting Standards.

Annexure 1

Criteria for classification of Non-company Entities as decided by the Institute of Chartered Accountants of India

Level I Entities

Non-company entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

(i) Entities whose securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.

(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.

(iii) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees two-fifty crore in the immediately preceding accounting year.

(iv) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees fifty crore at any time during the immediately preceding accounting year.

(v) Holding and subsidiary entities of any one of the above.

Level II Entities

Non-company entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees fifty crore but does not exceed rupees two-fifty crore in the immediately preceding accounting year.

(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees ten crore but not in excess of rupees fifty crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

Level III Entities

Non-company entities which are not covered under Level I and Level II but fall in any one or more of the following categories are classified as Level III entities:

(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) exceeds rupees ten crore but does not exceed rupees fifty crore in the immediately preceding accounting year.

(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees two crore but does not exceed rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

Level IV Entities

Non-company entities which are not covered under Level I, Level II and Level III are considered as Level IV entities.

Additional requirements

(1) An MSME which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME, the Level of MSME and that it has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III or Level IV, as the case may be.

(2) Where an entity, being covered in Level II or Level III or Level IV, had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be covered in Level II or Level III or Level IV, as the case may be. The fact that the entity was covered in Level II or Level III or Level IV, as the case may be, in the previous period and it had availed of the exemptions or relaxations available to that Level of entities shall be disclosed in the notes to the financial statements. The fact that previous period figures have not been revised shall also be disclosed in the notes to the financial statements.

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

(4) If an entity covered in Level II or Level III or Level IV opts not to avail of the exemptions or relaxations available to that Level of entities in respect of any but not all of the Accounting Standards, it shall disclose the Standard(s) in respect of which it has availed the exemption or relaxation.

(5) If an entity covered in Level II or Level III or Level IV opts not to avail any one or more of the exemptions or relaxations available to that Level of entities, it shall comply with the relevant requirements of the Accounting Standard.

(6) An entity covered in Level II or Level III orLevelIVmay opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard:
Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead any person or public.

(7) In respect of Accounting Standard (AS) 15, *Employee Benefits*, exemptions/ relaxations are available to Level II and Level III entities, under two sub-classifications, viz., (i) entities whose average number of persons employed during the year is 50 or more, and (ii) entities whose average number of persons employed during the year is less than 50. The requirements stated in paragraphs (1) to (6) above, mutatis mutandis, apply to these sub-classifications.

Annexure 2

Applicability of Accounting Standards to Non-company Entities

The Accounting Standards issued by the ICAI, as on April 1, 2020, and such standards as issued from time-to-time are applicable to Non-company entities subject to the relaxations and exemptions in the announcement. The Accounting Standards issued by ICAI as on April 1, 2020, are:

AS 1	Disclosure of Accounting Policies
AS 2	Valuation of Inventories
AS 3	Cash Flow Statements
AS 4	Contingencies and Events Occurring After the Balance Sheet Date
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 7	Construction Contracts
AS 9	Revenue Recognition
AS 10	Property, Plant and Equipment
AS 11	The Effects of Changes in Foreign Exchange Rates
AS 12	Accounting for Government Grants
AS 13	Accounting for Investments
AS 14	Accounting for Amalgamations
AS 15	Employee Benefits
AS 16	Borrowing Costs
AS 17	Segment Reporting
AS 18	Related Party Disclosures
AS 19	Leases
AS 20	Earnings Per Share
AS 21	Consolidated Financial Statements
AS 22	Accounting for Taxes on Income
AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
AS 24	Discontinuing Operations
AS 25	Interim Financial Reporting
AS 26	Intangible Assets

AS 27	Financial Reporting of Interests in Joint Ventures
AS 28	Impairment of Assets
AS 29	Provisions, Contingent Liabilities and Contingent Assets

(1) Applicability of the Accounting Standards to Level 1 Non- company entities.

Level I entities are required to comply in full with all the Accounting Standards.

(2) Applicability of the Accounting Standards and exemptions/relaxations for Level II, Level III and Level IV Non-company entities

(A) Accounting Standards applicable to Non-company entities

AS	**Level II Entities**	**Level III Entities**	**Level IV Entities**
AS 1	**Applicable**	**Applicable**	**Applicable**
AS 2	**Applicable**	**Applicable**	**Applicable**
AS 3	**Not Applicable**	**Not Applicable**	**Not Applicable**
AS 4	**Applicable**	**Applicable**	**Applicable**
AS 5	**Applicable**	**Applicable**	**Applicable**
AS 7	**Applicable**	**Applicable**	**Applicable**
AS 9	**Applicable**	**Applicable**	**Applicable**
AS 10	**Applicable**	**Applicable with disclosures exemption**	**Applicable with disclosures exemption**
AS 11	**Applicable**	**Applicable with disclosures exemption**	**Applicable with disclosures exemption**
AS 12	**Applicable**	**Applicable**	**Applicable**
AS 13	**Applicable**	**Applicable**	**Applicable**
AS 14	**Applicable**	**Applicable**	**Not Applicable (Refer note 2(C))**
AS 15	**Applicable with exemptions**	**Applicable with exemptions**	**Applicable with exemptions**
AS 16	**Applicable**	**Applicable**	**Applicable**

AS 17	**Not Applicable**	**Not Applicable**	**Not Applicable**
AS 18	**Applicable**	**Not Applicable**	**Not Applicable**
AS 19	**Applicable with disclosures exemption**	**Applicable with disclosures exemption**	**Applicable with disclosures exemption**
AS 20	**Not Applicable**	**Not Applicable**	**Not Applicable**
AS 21	**Not Applicable (Refer note 2(D))**	**Not Applicable (Refer note 2(D))**	**Not Applicable (Refer note 2(D))**
AS 22	**Applicable**	**Applicable**	**Applicable only for current tax related provisions (Refer note 2(B) (vi))**
AS 23	**Not Applicable (Refer note 2(D))**	**Not Applicable (Refer note 2(D))**	**Not Applicable (Refer note 2(D))**
AS 24	**Applicable**	**Not Applicable**	**Not Applicable**
AS 25	**Not Applicable (Refer note 2(D))**	**Not Applicable (Refer note 2(D))**	**Not Applicable (Refer note 2(D))**
AS 26	**Applicable**	**Applicable**	**Applicable with disclosures exemption**
AS 27	**Not Applicable (Refer notes 2(C) and 2(D))**	**Not Applicable (Refer notes 2(C) and 2(D))**	**Not Applicable (Refer notes 2(C) and 2(D))**
AS 28	**Applicable with disclosures exemption**	**Applicable with disclosures exemption**	**Not Applicable**
AS 29	**Applicable with disclosures exemption**	**Applicable with disclosures exemption**	**Applicable with disclosures exemption**

(B) Accounting Standards in respect of which relaxations/exemptions from certain requirements have been given to Level II, Level III and Level IV Non-company entities[145] :

(i) Accounting Standard (AS) 10, Property, Plant and Equipments
Paragraph 87 relating to encouraged disclosures is not applicable to Level III and Level IV Non-company entities.

(ii) AS 11, The Effects of Changes in Foreign Exchange Rates (revised 2018)
Paragraph 44 relating to encouraged disclosures is not applicable to Level III and Level IV Non-company entities.

(iii) Accounting Standard (AS) 15, Employee Benefits (revised 2005)

(1) Level II and Level III Non-company entities whose average number of persons employed during the year is 50 or more are exempted from the applicability of the following paragraphs:

(a) 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);

(b) 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;

(c) 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 entities should actuarially determine and provide for the accrued liability in respect of defined benefit plans by using the Projected Unit Credit Method and 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 entities should disclose actuarial assumptions as per paragraph 120(l) of the Standard; and

(d) 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 entities should actuarially determine and provide for the accrued liability in respect of other long- term employee benefits by using the Projected Unit Credit Method and 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.

2. Level II and Level III Non-company entities whose average number of persons employed during the year is less than 50 and Level IV Non-company entities irrespective of number of employees are exempted from the applicability of the following paragraphs:

(a) 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);

(b) 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;

(c) 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 entities 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; and

(d) 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 entities 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.

(iv) AS 19, Leases

(a) Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a) and (f); and 46 (b) and (d) relating to disclosures are not applicable to Level II Non-company entities.

(b) Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); and 46 (b), (d) and (e) relating to disclosures are not applicable to Level III Non-company entities.

(c) Paragraphs 22 (c),(e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); 38; and 46 (b), (d) and (e) relating to disclosures are not applicable to Level IV Non-company entities.

(v) AS 22, Accounting for Taxes on Income

(a) Level IV N on-company entities shall apply the requirements of AS 22, Accounting for Taxes on Income, for Current tax defined in paragraph 4.4 of AS 22, with recognition as per paragraph 9, measurement as per paragraph 20 of AS 22, and presentation and disclosure as per paragraphs 27-28 of AS 22.

(b) Transitional requirements
On the first occasion when a Non-company entity gets classified as Level IV entity, the accumulated deferred tax asset/liability appearing in the financial statements of immediate previous accounting period, shall be adjusted against the opening revenue reserves.

(vi) AS 26, Intangible Assets
Paragraphs 90(d)(iii); 90(d)(iv) and 98 relating to disclosures are not applicable to Level IV Non-company entities.

(vii) AS 28, Impairment of Assets

(a) Level II and Level III Non-company entities 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. Consequently, if Level II or Level III Non-company entity 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 entity. Further, such an entity need not disclose the information required by paragraph 121(g) of the Standard.

(b) Also, paragraphs 121(c)(ii); 121(d)(i); 121(d)(ii) and 123 relating to disclosures are not applicable to Level III Non- company entities.

(viii)AS 29, Provisions, Contingent Liabilities and Contingent Assets (revised 2016)
Paragraphs 66 and 67 relating to disclosures are not applicable to Level II, Level III and Level IV Non-company entities.

(C) In case of Level IV Non-company entities, generally there are no such transactions that are covered under AS 14, Accounting for Amalgamations, or jointly controlled operations or jointly controlled assets covered under AS 27, Financial Reporting of Interests in Joint Ventures. Therefore, these standards are not applicable to Level IV Non-company entities. However, if there are any such transactions, these entities shall apply the requirements of the relevant standard.

(D) AS 21, Consolidated Financial Statements , AS 23, Accounting for Investments in Associates in Consolidated Financial Statements, AS 27, Financial Reporting of Interests in Joint Ventures (to the extent of requirements relating to Consolidated Financial Statements), and AS 25, Interim Financial Reporting, do not require a Non-company entity to present consolidated financial statements and interim financial report, respectively. Relevant AS is applicable only if a Non-company entity is required or elects to prepare and present consolidated financial statements or interim financial report.

Footnotes

[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 226 th 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). The ICAI in 2007 issued the 'Revised Preface to the Standards on Quality Control, Auditing. Review, Other Assurance and Related Services'. Pursuant to issuance of Revised Preface, the

'Auditing and Assurance Standards' (AAS) have been renamed as 'Engagement and Quality Control Standards'. The Engagement Standards comprise:

- Standards on Auditing (SAs) – To be applied in the audit of historical financial information.
- Standards on Review Engagements (SREs) – To be applied in the review of historical financial information.
- Standards on Assurance Engagements (SAEs) – To be applied in assurance engagements, other than audits and reviews of historical financial information.
- Standards on Related Services (SRSs)–To be applied to engagements involving application of agreed-upon procedures to information, compilation engagements, and other related services engagements, as may be specified by the ICAI.

[3] ibid.

[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 and Appendix 1 to this Compendium 'Applicability of Accounting Standards to Various Entities'. With regard to Statements on auditing, 'Handbook of Auditing Pronouncements' issued by the Institute may be referred. 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.

[5] The nomenclature of this document was changed by the Council of the Institute at its 133 rd 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. Subsequently, AS 10 has been revised.

[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. Subsequently, in view of the requirements of Companies Act, 2013, Guidance Note on Accounting for Depreciation has been withdrawn by the Council at its 347t h meeting held in October, 2015.

[7] Refer footnote 2. 'Statements on Standard Auditing Practices' have been renamed as 'Engagement and Quality Control 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.

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

[11] ibid.

[12] ibid.

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

[14] To know the current Status of Statements on auditing 'Handbook of Auditing Pronouncements' issued by the Institute may be referred.

[15] 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 became 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, two limited revisions have been made to AS 15 (revised 2005). AS 15 (revised 2005), after incorporating the said Limited Revisions, came into effect in respect of accounting periods commencing on or after December 7, 2006. Announcement XXXIV in this regard may be referred . AS 15 (revised 2005) is published elsewhere in this Compendium.

[16] 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 40 and Announcements IX, XVIII, XXII, XXXI, XXXII, XXXIII, XXXV, XXXVI, XL, XLIII and XLIV.

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

[18] 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 was issued (See Announcement VIII). Further, a Clarification, namely, General Clarification (GC) - 12/2002 on applicability of accounting standards to Co-operative Societies was 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.

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

[20] 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).

[21] This standard has been revised and titled as Property, Plant and Equipment. The standard has been included in the compendium elsewhere (Refer Announcement XLV).

[22] With regard to reference to Companies Act, 1956, in this Announcement, relevant Sections of Companies Act, 2013, shall be referred.

[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 the existing Accounting Standards (see Announcement XX). AS 4 has been further revised (Refer Announcement XLV).

[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).

[27] Schedule VI to the Companies Act, 1956, has been replaced by Schedule III to the Companies Act, 2013.

[28] 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 was issued (See Announcement VIII). Further, a Clarification, namely, General Clarification (GC) - 12/2002 on applicability of accounting standards to Co-operative Societies was 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.

[29] ibid.

[30] AS 10 has been revised and the revised standard is included in the Compendium elsewhere (Refer Announcement XLV).

[31] Refer footnote 28

[32] 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). Subsequently, this standard has been revised and published elsewhere in this compendium (Refer Announcement XLV).

[33] 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).

[34] 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 46 and Announcements XVIII, XXII, XXXI, XXXII, XXXIII, XXXV, XXXVI, XL, XLIII and XLIV also.

[35] Subsequent to issuance of this 'Announcement', various other pronouncements of the Institute have been issued and various developments have taken place. In this regard, it may be noted that the auditor needs to comply with the requirements of SA 700, 'The Auditor's Report on Financial Statements' or SA 700 (Revised), 'Forming an Opinion and Reporting on Financial Statements', SA 705, 'Modifications to the Opinion in the Independent Auditor's Report' and SA 706, 'Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report', as may be applicable, issued by the ICAI while making qualification/disclosure in the audit report. The Council, in April 2012 decided that the SA 700 (Revised), SA 705 and SA 706 be applicable to audits of financial statements for periods beginning on or after April 1, 2012, instead of April 1, 2011, as originally decided in 2010 at the time of issuance of these Standards. For details and current status refer 'Handbook of Auditing Pronouncements'.

[36] ibid .

[37] 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. Subsequently, AS 10 has also been revised and included in this compendium elsewhere (Refer Announcement XLV).

[38] 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 was issued (See Announcement VIII). Further, a Clarification, namely, General Clarification (GC)- 12/2002 on applicability of accounting standards to Co-operative Societies was 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.

[39] 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 was issued (See Announcement VIII). Further, a Clarification, namely, General Clarification (GC)-12/2002 on applicability of accounting standards to Co-operative Societies was 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. Further, the ICAI vide Announcement XLVIII (published elsewhere in this Compendium) has revised the Criteria for Classification of Non-company Entities for Applicability of Accounting Standards.

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

[41] 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).

[42] AS 10 has been revised and included in the compendium elsewhere (Refer Announcement XLV).

[43] With regard to reference to Companies Act, 1956, relevant Sections of Companies Act, 2013, shall be referred.

[44] Regarding AS 11, see the Announcements made by the Council in this regard at IV, IX, XVIII, XXII, XXXI, XXXII, XXXIII, XXXV, XXXVI, XL, XLIII, and XLIV and footnote 46 for subsequent developments.

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

[46] 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, XXXIII, XXXV, XXXVI, XL, XLIII and XLIV.

[47] 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 was issued (See Announcement VIII). Further, a Clarification, namely, General Clarification (GC)- 12/2002 on applicability of accounting standards to Co- operative Societies was 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.

[48] 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).

[49] 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. AS 4 and AS 10 have been revised (see Announcement XLV).

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

[51] 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). Subsequently, AS 6 has been omitted (Refer

announcement XLV).

[52] 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.

[53] 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.

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

[55] 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, XXXIII, XXXV, XXXVI, XL, XLIII and XLIV.

[56] 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, XXXIII, XXXV, XXXVI, XL, XLIII and XLIV.

[57] 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). Subsequently, ICAI has issued Announcement on Criteria for Classification of Non-company Entities for Applicability of AS (see Announcement XLVIII). For current status of applicability of AS 3, refer Appendix I to the Compendium.

[58] 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). Subsequent to Notification of Accounting Standards by the Central Government under the Companies (Accounting Standards) Rules, 2006, ASI 12 has been converted into Guidance Note. The ICAI vide Announcement XLVIII (published elsewhere in this Compendium) has made AS 20 non-mandatory for Micro, Small and Medium-sized Enterprises (Level IV, Level III and Level II non- company entities). For current status of applicability of AS 20, refer Appendix I to the Compendium.

[59] Schedule VI to the Companies Act, 1956, has been revised to be effective from 1.4.2011. Subsequently, Schedule III to the Companies Act, 2013 has been made effective from 1.4.2014.

[60] ibid.

[61] Published in 'The Chartered Accountant', April 2002 (page 1242). The Council, at its 236 th 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). For current Status of applicability of AS 18, see Appendix 1 to this Compendium, 'Applicability of Accounting Standards to Various Entities.

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

[63] 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. For current Status of applicability of AS 24, see Appendix 1 to this Compendium 'Applicability of Accounting Standards to Various Entities'.

[64] It may be noted that the Accounting Standards were notified on 7th December, 2006, by the Central Government under the Companies (Accounting Standards) Rules, 2006. Further, certain Accounting Standards was revised by the Central Government vide notification dated 30th March, 2016. It may also be noted that various sections of the Companies Act 1956, referred to in this

Announcement have been replaced by the relevant sections of Companies Act, 2013. Subsequently, Central Government vide Notification dated June 23, 2021, has notified Accounting Standards as Companies (Accounting Standards) Rules, 2021.

[65] 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). However, pursuant to the definition of 'Financial Statements' given under Companies Act, 2013, preparation of cash flow statement is mandatory for all companies subject to certain exceptions. Subsequently, ICAI vide Announcement XLVIII (published elsewhere in this Compendium) has revised the Criteria for Classification of Non-company Entities for Applicability of AS. For the current status of applicability of AS 3 see Appendix 1 to this Compendium.

[66] 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.

[67] 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.

[68] 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.

It may be noted that pursuant to notification of Accounting Standards by Central Government, the Institute has issued an Announcement regarding 'Harmonisation of various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government', which inter alia, deals with applicability of Accounting Standards to various entities. Accordingly, this Announcement stands Superseded (see Announcement XXXVIII). Another Announcement was issued by the Council for 'Revision in the Criteria for classifying Level II non- corporate entities' (See Announcement XLII). The ICAI has issued Announcement XLVIII which, to the extent it prescribes the criteria for classification of Non-company entities (Non-corporate entities) and applicability of Accounting Standards to non-company entities, has superseded Announcements XXXVIII and XLII . For current status of applicability of Accounting Standards, see Appendix I to this compendium.

[69] This AS has been revised and included in this Compendium elsewhere (Refer Announcement XLV).

[70] ibid.

[71] This AS has been omitted (Refer Announcement XLV).

[72] 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.

[73] 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.

[74] This AS has been revised and included in this Compendium elsewhere (Refer Announcement XLV).

[75] 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, XXII, XXXI, XXXII, XXXIII, XXXV, XXXVI, XL, XLIII and XLIV reproduced hereafter.

[76] This AS has been revised and included in this Compendium elsewhere (Refer Announcement XLV).

[77] ibid.

[78] AS 15 (issued 1995) has been revised in 2005 and titled as 'Employee Benefits'. Subsequently, two limited revisions have also been made to AS 15 (revised 2005). AS 15 (revised 2005), after incorporating the said Limited Revisions, came into effect in respect of accounting periods commencing on or after December 7, 2006. In AS 15 (revised 2005), certain exemptions/ relaxations from recognition, measurement and disclosure requirements have been provided to SMCs, non-corporate entities falling in Level II, Level III and Level IV. AS 15 (revised 2005) is published elsewhere in this Compendium.

[79] See Announcement XXI also.

[80] Vide Announcement XLVIII the criteria for classification of Non-company entities has been revised. The Announcement also deals with applicability of AS and exemptions/relaxations available to MSMEs. For current status of exemptions/relaxations available to MSMEs, refer Appendix I to this Compendium.

[81] Pursuant to Notification of Accounting Standards by the Central Government, AS 18 is applicable in its entirety to all the companies and non-corporate entities falling in Level I and Level II (See Announcements XXXVIII, XLII and XLVIII).

[82] Pursuant to Notification of Accounting Standards by the Central Government, AS 24 is applicable in its entirety to all the companies and non-corporate entities falling in Level I and Level II (See Announcements XXXVIII, a XLII and XLVIII).

[83] For current status of applicability of AS 21, AS 23 and AS 27 (relating to consolidated financial statements) refer Appendix 1 to the Compendium 'Applicability of Accounting Standards to various Entities'.

[84] AS 29 has been revised and published in this Compendium elsewhere (Refer Announcement XLV)

[85] 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. Further, the Council revised the criteria for classification of non-company entities and, accordingly, AS 28 is not applicable to Micro Enterprises (Level IV non-company entities) (Refer Announcement XLVIII).

[86] 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.

[87] AS 3 was originally made mandatory in respect of accounting periods co

(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.

[88] 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.

[89] 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.

[90] 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.

[91] 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.

[92] 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.

[93] 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.

[94] 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.

ibid .

[95] ibid.

[96] ibid.

[97] Published in 'The Chartered Accountant', November 2003 (pp. 497). This Announcement has been withdrawn by the Council at its 269th meeting held on July 18, 2007 (See Announcement XXXVI).

[98] 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) came into effect in respect of accounting periods commencing on or after 01.04.2006. The said Standard is published elsewhere in this Compendium.

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

[100] Published in 'The Chartered Accountant', July 2004 (pp. 119). For current status of applicability of AS 22, refer Appendix 1 to the Compendium.

[101] This Announcement was issued on the basis of the decision of the Council at its meeting held on June 24-26, 2004. It was withdrawn pursuant to issuance of Guidance Note on Accounting for Derivative contracts, which was effective from 1.4.2016.

[102] 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.

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

[104] 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, XXXIII, XXXVI and XL published hereinafter.

[105] Published in 'The Chartered Accountant', July 2004 (pp. 46). AS 21 has been revised with regard to scope of consolidation. The same is published elsewhere in this compendium (Refer Announcement XLV).

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

[107] Pursuant to Companies Act, 2013, coming into effect, relevant section of Companies Act, 2013, may be referred.

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

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

[110] It may be noted that the Announcement on 'Applicability of Accounting Standards' stands superseded pursuant to issuance of Announcement XXXVIII on 'Harmonisation of Various differences between the Accounting Standards issued by the ICAI and the Accounting Standards notified by the Central Government'. Accordingly, this Announcement should be read in context of Announcement XXXVIII. It may be noted that the council had issued another Announcement regarding revision in the criteria for classifying Level II non-corporate entities (see Announcement XLII). Subsequently, the ICAI has issued Announcement XLVIII which superseded Announcement XXXVIII to the extent these Announcements prescribe the criteria for classification of Non-company entities (Non-corporate entities) and applicability of Accounting Standards to non-company entities and Announcement XLII, (Announcement XLVIII published elsewhere in this Compendium).

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

[112] Pursuant to the Companies Act, 2013, coming into effect, relevant section of the Companies Act, 2015, may be referred.

[113] Published in 'The Chartered Accountant', November 2005 (pp. 777-778). It may be noted that the term SMEs here refers to SMCs and non-corporate entities falling in Level II and Level III (see Announcement XXXVIII). With regard to revision in the criteria for classifying non-company entities, refer Announcement XLVIII. For current status in this regard, refer Appendix 1 of this compendium.

[114] Published in 'The Chartered Accountant', December 2005 (pp. 927). Subsequently, Guidance Note on Accounting for Derivative Contracts has been issued effective from 1.4.2016 and this Announcement Stands withdrawn.

[115] 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 had decided to defer the applicability of the Announcement by one year. The Announcement was made applicable in respect of accounting period(s) commencing on or after April 1, 2007 (see Announcement XXXIII issued in this regard).

Applicability of the Announcement was further deferred for one year (See Announcement XXXVI). Pursuant to issuance of AS 30 the Council decided to withdraw the Announcement issued in January 2006 and subsequent Announcements deferring its applicability (See Announcements XL and XLVI).

[116] 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.

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

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

[119] 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 had decided to defer the applicability of the said Announcement by one year. The said Announcement was made applicable in respect of accounting period(s) commencing on or after April 1, 2007 (see Announcement XXXIII issued in this regard). Applicability of the Announcement was further deferred for one year (See Announcement XXXVI). Pursuant to issuance of AS 30, the Council decided to withdraw the Announcement issued in January 2006 and subsequent Announcements deferring its applicability (See Announcements XL and XLVI).

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

[121] It may be noted that applicability of the Announcement issued in January 2006 was further deferred for one year (See Announcement XXXVI). Pursuant to issuance of AS30, the Council decided to withdraw the Announcement issued in January 2006 and subsequent Announcements deferring its applicability (See Announcements XL and XLVI).

[122] Published in 'The Chartered Accountant', March 2007 (pp. 1480).

[123] Published in 'The Chartered Accountant', August 2007 (pp. 320).

[124] Also published elsewhere in this Compendium (see Announcement XVIII).

[125] Published in 'The Chartered Accountant', August 2007 (pp. 320).

[126] It may be noted that pursuant to issuance of AS 30, the Council decided to withdraw the Announcement issued in January 2006 and subsequent Announcements deferring its applicability (See Announcement XL). However, with the issuance of Guidance Note on Accounting for Derivative Contracts, AS 30, AS 31 and AS 32 stand withdrawn (Refer Announcement XLVI)

[127] Published in 'The Chartered Accountant', December 2007 (pp. 992).

[128] Published in 'The Chartered Accountant', February 2008 (pp. 1340). This Announcement, to the extent it prescribes the criteria for classification of Non-company entities (Non-corporate entities) and applicability of Accounting Standards to non-company entities, has been superseded by Announcement XLVIII (published elsewhere in this Compendium).

[129] An Announcement regarding revision in the criteria for classifying Level II non-corporate entities was issued by the Council (See Announcement XLII). Subsequently, vide Announcement XLVIII, the criteria for classification of non-company entities has been revised. Definition of SMC has also been revised under Companies (Accounting Standards) Rules 2021. For the current status of applicability of Accounting Standards to various levels of entities, please refer Appendix I to this compendium.

[130] AS 21, AS 23 and AS 27 (to the extent these standards relate to preparation of consolidated financial statements) are required to be complied with by a non-corporate entity if the non- corporate entity, pursuant to the requirements of a statute/regulator or voluntarily, prepares and presents consolidated financial statements.

[131] Published in 'The Chartered Accountant', May 2008 (pp. 1945). Subsequently, Guidance Note on Accounting for Derivative has been issued effective from 1.4.2016 and this announcement stands withdrawn.

[132] Published in 'The Chartered Accountant', May 2008 (pp. 1944).

[133] Subsequently, with the issuance of Guidance Note on Accounting for Derivative Contracts, AS 30 was withdrawn (See Announcement XLVI)

[134] Published in 'The Chartered Accountant', April 2011 (pp. 1575). Subsequently, with the issuance of Guidance Note on Accounting for Derivative Contracts, AS 30 was withdrawn (See Announcement XLVI)

[135] This Announcement has been superseded by Announcement XLVIII. (Announcement XLVIII published elsewhere in this Compendium).

[136] Published in 'The Chartered Accountant', February 2008 (pp. 1340)

[137] Published in the Chartered Accountant', May 2013 (PP 1796).

[138] Published in 'The Chartered Accountant', November, 2016 (pp 724).

[139] Accounting Standards earlier notified under Companies (Accounting Standards) Rules, 2006 have been notified as Companies (Accounting Standards) Rules 2021 under Companies Act 2013.

[140] Published in 'The Chartered Accountant', January, 2017 (pp. 1024).

[141] Hosted on ICAI website on March 31, 2021 and published in 'The Chartered Accountant', May 2021 (pp. 1399).

[142] The report, 'Reforming Major Interest Rate Benchmarks', is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf (http://www.fsb.org/wp-content/uploads/r_140722.pdf) . Also refer to Report of the Committee on Financial Benchmarks of RBI dated 7th Feb 2014 at https://m.rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=761

[143] When risk components are designated as hedged items, an entity considers whether the risk components are explicitly specified in a contract (contractually specified risk components) or whether they are implicit in the fair value or the cash flows of an item of which they are a part (non- contractually specified risk components). A risk component to be eligible for hedge designation should be separately identifiable and reliably measurable.

[144] Hosted on ICAI website on March 31, 2021 and published in 'The Chartered Accountant', May 2021 (pp. 1401).

[145] Level IV non-company entities were given exemption regarding disclosure under paragraph 35(f) of AS 13 related to disclosure specifically required by relevant statue governing the enterprise. The Council at its 427th meeting held on January 3-4, 2024, decided not to exempt the aforesaid disclosure requirement.