Chapter 4

Reporting Requirements

4.1 Introduction

Every business has to prepare its financial statements on yearly basis and submit it to various agencies related with the business. Such users of accounts include owners, top level management, members or shareholders of the business, bankers, tax authorities, creditors, investors etc. It is clarified by the council that all mandatory AS shall apply in respect of general purpose financial statements of the individual/ bodies where such statements are statutorily required to be audited under any law. It is 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.

It is also made clear 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.

4.2 Applicability of Accounting Standards

For the purpose of applicability of accounting standards entities are classified into three categories by the ICAI, however this classification is not
applicable to companies covered by classification made by Companies (Accounting Standards) Rules, 2006.

**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-

1) 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.
2) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.
3) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.
4) 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.
5) 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-

1) 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.
2) 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.
3) Holding and subsidiary entities of any one of the above.
Level III Entities (SMEs)- Non-corporate entities which are not covered Level I and Level II are considered as Level III entities.

Table 4.1 Applicability of the Accounting Standards issued by the Institute of Chartered Accountants of India-

<table>
<thead>
<tr>
<th>No. of AS</th>
<th>Title of AS</th>
<th>Date from which mandatory (accounting period commencing on or after)</th>
<th>Enterprise to which applicable</th>
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<tbody>
<tr>
<td>(AS) 1</td>
<td>Disclosure of Accounting Policies</td>
<td>1.4.1993</td>
<td>All</td>
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<td>(AS) 2</td>
<td>Valuation of Inventories</td>
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<td>All</td>
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<td>(AS) 3</td>
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</tr>
<tr>
<td>(AS) 8</td>
<td>Withdrawn and included in AS-26</td>
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<td>Level-II</td>
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<td>(AS) 32</td>
<td>Financial Instruments: Disclosures</td>
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<td>Non-SME</td>
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**Note-1:** AS-21, AS-23 and AS-27 (relating to consolidated financial statements) are required to be complied with by an entity if the entity, pursuant to the requirements of a statute/regulator or voluntarily, prepares and presents consolidated financial statements.

**Note-2:** AS -25 is not mandatory. However, if an entity is required or elect to prepare and present an interim financial report, it should comply with this standard.

**Usage of Accounting Standard-** In any country, the awareness and competitiveness among the corporate would be strengthened when they understand each other and compare their performance, for which the simple, understandable and comparable disclosure is an important instrument. The main objective of disclosure would be fulfilled and the utility of the disclosure
towards good Corporate Governance would be improved when the disclosure is done on the basis of uniform and consistent accounting standards.

The Accounting Standards will be mandatory from the respective dates; the mandatory status of an Accounting Standard implies that while discharging their attest functions, it will be the duty of members of the Institute to examine whether the Accounting Standards is complied within the presentation of financial statements covered by their audit.

Ensuring compliance with the Accounting Standards while preparing the financial statements is the responsibility of the management of the enterprise.

4.3 Advantages of Accounting Standards

The setting of accounting standards has the following advantage-

1. Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

2. There are certain areas where important information is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

3. The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards practiced in different countries.
4.4 Reporting Requirements

Accounting Standards issued by the ICAI have legal recognition through the Companies Act, 1956, whereby every company is required to comply with the Accounting Standards and the statutory auditors of every company are required to report whether the Accounting Standards have been complied with or not. Also, the Insurance Regulatory and Development Authority (IRDA) as per the provisions of Preparation of Financial Statements and Auditor’s Report of Insurance Companies Regulations, 2000 requires insurance companies to follow the Accounting Standards issued by the ICAI. The Securities and Exchange Board of India (SEBI) and the Reserve Bank of India also require compliance with the Accounting Standards issued by the ICAI from time to time. Section 211 of the Companies Act, 1956, deals with the form and contents of balance sheet and profit and loss account. The Companies (Amendment) Act, 1999 has inserted new sub-sections 3A, 3B and 3C to Section 211, with a view to ensure that the financial statements are prepared in accordance with the Accounting Standards. The new sub-sections as inserted are reproduced below:

Section 211 (3A): ‘Every profit and loss account and balance sheet of the company shall comply with the accounting standards’

Section 211 (3B): ‘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’

Section 211 (3C): ‘For the purposes of this section, the expression “accounting standards” means the standards of accounting recommended by the Institute of Chartered Accountants of India, constituted under the Chartered Accountants Act, 1949 (38 of 1949), 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:

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 this sub-section.

It may also be mentioned that the National Advisory Committee on Accounting Standards (NACAS) has been constituted under section 210A as referred to under section 211 (3C) to advise the Central Government on formulation and laying down of the accounting standards for adoption by companies or class of companies. It is of significance to note that on the recommendation of NACAS, the Ministry of Company Affairs, has issued a Notification dated 7th December, 2006, whereby it has prescribed Accounting Standards 1 to 7 and 9 to 29, as recommended by the Institute of Chartered Accountants of India, which are included in the said Notification. As per the Notification, the Accounting Standards shall come into effect in respect of accounting periods commencing on or after the publication of these Accounting Standards, i.e., 7th December, 2006. Specific relaxations are given to particular kinds of companies, termed as Small and Medium Sized Companies, depending upon their size and nature. The above legal provisions have cast a duty upon the management to prepare the financial statements in accordance with the accounting standards. The corresponding provision to report on the compliance of accounting standards has been inserted under section 227 of the Companies Act, 1956, thereby casting a duty upon the auditor of the company to report on such compliance. A new clause (d) under sub-section 3 of Section 227 of the Companies Act, 1956 is read as under:

‘whether, in his opinion, the profit and loss account and balance sheet comply with the accounting standards referred to in sub-section (3C) of section 211’

As far as the reporting of compliance with the Accounting Standards by the management is concerned, clause (i) under the new sub-section 2AA of Section 217 of the Companies Act, 1956, (inserted by the Companies Amendment Act, 2000) prescribes that the Board’s report should include a
Directors’ Responsibility Statement indicating therein that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.

All the Accounting Standards specify the reporting requirements at the end of every Standard. As per the same, the Business Organisation preparing and publishing its books of accounts have to make disclosures as specified by the applicable Accounting Standards. The disclosure requirements by the Accounting Standards are as under:-

**AS-1 DISCLOSURE OF ACCOUNTING POLICIES**

-To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

-Such disclosure should form part of the financial statements. It would be helpful to the reader of financial statements if they are all disclosed as such in one place instead of being scattered over several statements, schedules and notes.

-Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in the accounting policies which has a material effect in the current period, the amount by which any item in the financial statement is affected by such change should also be disclosed to extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be disclosed.

-Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item in the accounts.

**AS-2 VALUATION OF INVENTORIES**

- Accounting policy adopted in measuring inventories.
- Cost formula used.
- Classification of inventories- like – finished goods, raw material, spare parts and its carrying amount.

**AS-3 CASH FLOW STATEMENTS**
- An enterprise should disclose the components of cash and cash equivalents and should present a reconciliation of the amount in the cash flow statement with equivalent items reported in the balance sheet.

**AS-4 CONTINGENCIES and EVENTS OCCURRING AFTER BALANCE SHEET DATE**
- If the disclosure of contingencies is required, the following should be provided:
  - the nature of contingency.
  - the uncertainties which may affect the future outcome.
  - as estimate of the financial effect, or a statement that estimate cannot be made.
- If disclosure of events occurring after the balance sheet date in the report of the approving authority is required, the following information should be provided:
  - the nature of the event
  - an estimate of the financial effect, or a statement that such an estimate cannot be made.

**AS-5 NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD AND CHANGES IN ACCOUNTING POLICIES**
- Material effect should be shown in financial statement to reflect the effect of such change.
- This effect should be disclosed in the year of change.
- If the effect of change is not ascertainable, the fact should be disclosed.
- If the effect of change is not material for current period, but it is material effect for the latter period, then fact should be disclosed in the period of change.
AS-6 DEPRECIATION ACCOUNTING
- The total cost of each class of assets – historical cost or revalued cost.
- Total depreciation for the period of each of assets.
- Accumulated depreciation of each class of assets.
- Depreciation method.
- Depreciation rates or the useful life of the assets, if they are different than the rates specified in governing status.

AS-7 CONSTRUCTION CONTRACTS
- An enterprise should disclose-
  - the amount of contract revenue recognized as revenue in the period;
  - the methods used to determine the contract revenue recognized in the period and
  - the methods used to determine the stage of completion of contracts in process.
- Disclose the following for contracts in process at the reporting –
  - the aggregate amount of costs incurred and recognized profits up to reporting date.
  - the amount of advances received; and
  - the amount of retentions.
- An enterprise should present-
  - the gross amount due from customers for contract work as an asset and
  - the gross due to customers for contract work as liability.

AS-9 REVENUE RECONISITION
When revenue recognition is postponed, the disclosure of the circumstances necessitating the postponement should be made.
AS-10 ACCOUNTING FOR FIXED ASSETS

-Gross and net book values of fixed assets at the beginning and end of accounting period.
-Additions, disposals, acquisitions and other movements in fixed assets.
-Expenditure incurred for fixed assets that are in the process of construction or acquisition.
-Amount substituted, if any, for historical cost of FA.
-Method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved, in case fixed assets are stated at revalued amounts.

AS-11 EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

-An enterprise should disclose-
- Amount of exchange difference included in the net profit or loss.
- Amount accumulated in foreign exchange translation reserve.
- Reconciliation of opening and closing balance of foreign exchange translation reserve.
- If the reporting currency is different from the currency of the country in which entity is domiciled, the reason for such difference.
- A change in classification of significant foreign operation needs following disclosures-
  - Nature of change in classification
  - The reason for the change.
  - Effect of such change on shareholders fund
  - Impact of change on net profit or loss for each prior period presented
  - The disclosure is also encouraged of an enterprise’s foreign currency risk management policy.
AS-12 ACCOUNTING FOR GOVERNMENT GRANTS

The following disclosures are appropriate-

-The accounting policy adopted for Govt. grants including the methods of presentation in the financial statement.

-The nature and extent of Govt grants recognized in the financial statements including grants of non-monetary assets given at a concessional rate or free of cost.

AS-13 ACCOUNTING FOR INVESTMENTS

- Accounting policies followed for valuation of investment.
- Classification of investment into current and long term in addition to classification as per Schedule VI of Companies Act in case of company.
- Agreement amount of quoted and unquoted securities separately.
- Any significant restriction on investment like minimum holding period for sale/disposal, utilization of sale proceeds, or non-remittance of sale proceeds of investment held outside India.

AS-14 ACCOUNTING FOR AMALGAMATION

Following disclosures for all amalgamation should be made-

- Names and general nature of business of amalgamating companies
- Effective date of amalgamation.
- Method of accounting used.
- Particulars of scheme sanctioned under a statute.
- In case of amalgamation under pooling of interest of method-
  - description and number of share issued.
  - difference between consideration and net assets acquired.
- In case of amalgamation under purchase method-
  - difference between consideration and net assets acquired and treatment thereof including period of amortization of goodwill.
AS-15 EMPLOYEE BENEFITS

The financial statements should disclose the method by which retirement benefit costs for the period have been determined. In case the costs related to gratuity and other defined benefit schemes are based on an actuarial valuation, the financial statements should also disclose whether the actuarial valuation was made at the end of the period or at an earlier date. In the latter case, the date of the actuarial valuation should be specified and the method by which the accrual for the period has been determined should also be briefly described, if the same is not based on the report of the actuary.

AS-16 BORROWING COSTS

The financial statement should disclose-
- The accounting policy adopted for borrowing cost.
- The amount of borrowing cost capitalized during the period.

AS-17 SEGMENT REPORTING

The disclosure requirements are as under-
- Revenue from external customers.
- Revenue from transactions with other segments
- Segment result.
- Cost to acquire tangible and intangible fixed assets.
- Depreciation and amortization expenses.
- Carrying amount of segment assets.
- Segment liabilities.
- Non-cash expenses other than depreciation and amortization.
- Reconciliation of revenue, result, assets and liabilities.
AS-18 RELATED PARTY DISCLOSURE

Following disclosure is needed-
- Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.
- If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following:
  (i) the name of the transacting related party;
  (ii) a description of the relationship between the parties;
  (iii) a description of the nature of transactions;
  (iv) volume of the transactions either as an amount or as an appropriate proportion;
  (v) any other elements of the related party transactions necessary for an understanding of the financial statements;
  (vi) the amounts or appropriate proportions of outstanding items and provisions for doubtful debts due from such parties at that date; and
  (vii) amounts written off or written back in the period in respect of debts due from or to related parties.

AS-19 ACCOUNTING FOR LEASE

In the books of Lessor-
(i) For Finance Lease-
- The lessor should recognize assets given under a finance lease in its balance sheet as a receivable at an amount equal to the net investment in the lease.
- The recognition of finance income should be based on a pattern reflecting a constant periodic rate of return on the net investment of the lessor outstanding in respect of the finance lease.

(ii) For Operating Lease-
- Record leased out asset as the fixed asset in the balance sheet.
-Charge depreciation as per AS-6.
-Recognize lease income in Profit and Loss A/c using straight line method. If any other method reflects more systematic allocation of earning derived from the diminishing value of leased out asset, that approach can be adopted.

**In the books of Lessee**-

(i) **For Finance Lease**- Legally the ownership of leased asset remains with lessor but risk and reward of leased asset is transferred to lessee therefore the substance of transactions is- lessee becomes the owner. Lease asset as well as liability for lease should be recognized at the lower of-
  - Fair value of the leased asset at the inception of lease or
  - Present value of minimum lease payment from the lessee point of view.

  Each lease payment is apportioned between finance charge and principal amount.

(ii) **For Operating Lease**- Lease payments should be recognized as an expense in the profit and loss account on a straight line basis over the lease term. If any other method is more representative of the time pattern of the user’s benefit, such method can be used.

**Sale and Leaseback Transactions**-

  Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of the significant leasing arrangements leads to disclosure of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

**AS-20 EARNINGS PER SHARE**

- **Disclosure of Numerator and reconciliation**- The amount used as numerator for calculating basic and diluted EPS and its reconciliation with net profit or loss for the period.
-Disclosure of denominator and reconciliation-
  -Weighted average number of shares used as denominator for calculating basic and diluted EPS and reconciliation of their denominator to each other.
  -Nominal value of shares along with EPS.
  -Basic earnings per share computed on the basis of earnings excluding extraordinary items (net of tax expense).
  -Diluted earnings per share computed on the basis of earnings excluding extraordinary items (net of tax expense).

AS-21 CONSOLIDATED FINANCIAL STATEMENTS
Following disclosure should be made in consolidated financial statements-
  -List of all subsidiaries
  -Proportion of ownership interest.
  -Nature of relationship between parent and subsidiary whether direct control or control through subsidiaries.
  -Name of the subsidiaries of which reporting date are different.
  -The fact for different accounting policies applied for preparation of consolidated financial statements.
  -If consolidation of particular subsidiary has not been made as per the grounds allowed in accounting standards the reason for not consolidating should be disclosed.

AS-22 ACCOUNTING FOR TAXES ON INCOME
- The break up of deferred tax asset/liability should be disclosed.
- In case of deferred tax asset arises out of unabsorbed depreciation or loss, evidence supporting recognition should be disclosed.
- Deferred tax asset/liability should be disclosed separately from current asset/liabilities. They should be distinguished from advance tax/tax provision/tax refund due. Deferred tax liability should be shown after the head “unsecured Loan” and deferred tax asset after the head “Investment” with a separate heading.
-Deferred tax asset and liability should be set off if permissible under the tax laws but to be shown separately if not permissible.

**AS-23 ACCOUNTING FOR INVESTMENTS IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS**

- Description of associate including the proportion of ownership interest should be disclosed.
- Investment in associates accounted for using the equity method should be classified as long term investments.
- Difference in reporting dates of financial statements of associates and of the investor should be disclosed.
- In case an associate uses accounting policies other than those adopted for the consolidated financial statements for like transactions and events and it is not practicable to make appropriate adjustments to the associate’s financial statements, the fact should be disclosed along with a brief description of the differences in the accounting policies.

**AS-24 DISCONTINUING OPERATIONS**

**Initial Disclosure Event**- With respect to a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

(a) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or
(b) the enterprise's board of directors or similar governing body has both (i) approved a detailed, formal plan for the discontinuance and (ii) made an announcement of the plan.

**Presentation and Disclosure**-

The standard prescribes-

**Initial disclosure**- An enterprise should include the following information in its financial statements in which the initial disclosure event occurs:
(a) A description of the discontinuing operation(s);
(b) The business or geographical segment(s) in which it is reported;
(c) The date and nature of the initial disclosure event;
(d) The date or period in which the discontinuance is expected to be completed;
(e) The carrying amounts of total assets to be disposed of and the total liabilities to be settled;
(f) Amount of revenue and expense attributable to discontinuing operation
(g) Amount of pre-tax profit or loss and tax expense attributable to discontinuing operation.
(h) Net cash flows attributable to the operating, investing and financing activities of the discontinuing operation

**Other Disclosure**- When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation, the following other information is also disclosed.
- Amount of gain or loss recognized on the disposal of assets or settlement of liabilities and related income tax.
- Net selling prices from the sale of those net assets for which the enterprise has entered into binding sale agreements and the expected timing thereof and carrying amount of those assets.

**Updating the disclosure**- The disclosure required for discontinuing operation should continue in financial statements for the period up to and including the period in which the discontinuance is completed, the disclosure required should be updated. Discontinuance is completed when the plan is substantially completed or abandoned, though full payments from the buyer(s) may not yet have been received. If an enterprise abandons or withdraws from a plan that was previously reported as a discontinuing operation, that fact, reasons therefore and its effect should be disclosed.
Disclosure in Interim Financial Reports- Interim financial reports should disclose in its notes any significant activity or event since the end of the most recent annual reporting relating to discontinuing operation and any significant change in the amount or timing of cash flows relating to assets and liabilities to be disposed/settled.

AS-25 INTERIM FINANCIAL REPORTING

Accounting Policies- An enterprise should apply the same accounting policies in the interim financial statements as are applied in the annual financial statements.

Minimum Disclosures of Notes- Following minimum disclosure of notes and explanatory statements should be made:
-a statement that the same accounting policies are followed in the interim financial statements as those followed in the most recent annual financial statements or, if those policies have been changed, a description of the nature and effect of the change;
-explanatory comments about the seasonality of interim operations;
-the nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence
-Effects of change in estimates.
-issuances, buy-backs, repayments and restructuring of debt, equity and potential equity shares;
-dividends, aggregate or per share (in absolute or percentage terms), separately for equity shares and other shares
-Segment revenue, segment result for business segment or geographical segment, whichever is the primary basis of the reporting entity.
-material events subsequent to the end of the interim period.
-the effect of changes in the composition of the enterprise during the interim period, such as amalgamations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations; and
material changes in contingent liabilities since the last annual balance sheet date.

**AS-26 INTANGIBLE ASSETS**
The financial statements should disclose the following in respect of intangible asset-
- Useful life or amortization rate.
- Amortization method.
- Gross carrying amount, accumulated amortization and impairment loss at the beginning and at the end of the period.
- Reconciliation of carrying amount at the beginning and at the end of the period.

**AS-27 Financial Reporting of Interests in Joint Ventures**
A venturer should make the following disclosure in its separate as well as in consolidated financial statements-
- A list of all joint venturer description of interest in significant Joint venture.
- Proportion of interest in case of jointly controlled entity.
- The aggregate amounts of each of the assets, liabilities, income and expenses related to its interest in the jointly controlled entity.
- Amount of capital commitments in the joint venture that has been incurred with other venturer and its share in such capital commitments.
- Any contingency that has been incurred in relation to its interest in joint venture.
- Its share of contingencies that has been incurred jointly with other Venturer.
- Contingencies for which the venturer is liable for the other venturer of joint venture.

**AS-28 Impairment of Assets**
Categorized in four major categories-
**Basic requirements for each class of assets**-
- Amount of impairment loss debited in profit and loss statement is not separately disclosed, item of profit and loss statement within which included.
- Amount of reversal of impairment loss credited to profit/loss account as income and if separately not shown in profit/loss account, item in which included.
- Amount of impairment loss set off against revaluation reserve during the period.
- Amount of reversal of impairment loss credited to revaluation reserve during the period.

**Requirement for segment reporting**: Enterprises where AS-17 Segment Reporting is applicable, the following should be disclosed-
- The amount of impairment loss recognized in profit and loss statement and directly in revaluation reserve during the period.
- The amount of reversal of impairment losses recognized in profit and loss statement and directly to revaluation reserve during the period.

**Requirement for Cash Generating Unit**: If impairment loss or reversal thereof during the period is material for the reporting enterprises as a whole an enterprise should disclose: -
- The events and circumstances that led to recognition of impairment loss and reversal thereof.
  - Amount of impairment loss recognized or reversed.
  - Nature of the individual assets and reportable segment to which it belongs.
  - Description of cash generating unit.
  - Amount of impairment loss recognized or reversal thereof for primary reportable segment.
  - Whether recoverable amount is ‘net selling price’ or ‘value in use’.
  - If recoverable amount is ‘value in use’, the discount rate used.
Assumptions used to determine the recoverable amount. This disclosure of assumption is not mandatory but encouraged to disclose.

**AS-29 Provisions, Contingent Liabilities and Contingent Assets**

For each class of provision, an enterprise should disclose:

(a) the carrying amount at the beginning and end of the period;
(b) additional provisions made in the period, including increases to existing provisions;
(c) amounts used (i.e. incurred and charged against the provision) during the period; and
(d) unused amounts reversed during the period.

Besides these the following other disclosures are required-

- A brief description of provision.
- Major assumption about future events made while measuring the provision and indication of uncertain items.

**AS-30 Financial Instruments: Recognition And Measurement**

**Measurement of Financial Liabilities**

When a financial liability is recognized initially, an entity should measure it as follows:

(a) A financial liability at fair value through profit or loss should be measured at fair value on the date of acquisition or issue.
(b) A derivative liability should be measured at directly attributable transaction cost or fair value initially. Subsequent measurement in case of derivatives which are linked to unquoted equity instruments, whose fair value cannot be reliably measured, are measured at cost.
(c) Financial liability arising out of continuing involvement of transferred asset and does not qualify for de-recognition are measured at amortised cost or fair value.
(d) Financial guarantee is measured as per AS-29 initially and subsequently higher of amount initially recognized less cumulative amortization or valuation as per AS-29.
(e) Other financial liabilities including debentures, bonds, preference shares, loans, advances and payables are initially measured at fair value and subsequently at amortized cost.

**Derecognition of Financial Assets and Financial Liabilities**-

The derecognition requirements in the Standard should be applied prospectively for transactions occurring on or after the date of this Standard becoming mandatory. An entity may, however, apply the derecognition requirements in the Standard retrospectively from a date of the entity’s choosing, provided that the information needed to apply this Standard to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

**AS-31 Financial Instruments: Presentation**

AS-31 prescribes the presentation requirements for-

**Debt Equity Classification**- The issuer of a financial instrument should classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument.

**Compound Financial Instruments**- The issuer of a non-derivative financial instrument should evaluate the terms of the financial instrument to determine whether it contains both a liability and an equity component. Such components should be classified separately as financial liabilities or equity instruments.
**Treasury shares**- If an entity reacquires its own equity instruments, those instruments (‘treasury shares’) should be deducted from equity. No gain or loss should be recognised in statement of profit and loss on the purchase, sale, issue or cancellation of an entity’s own equity instruments. Such treasury shares may be acquired and held by the entity or by other members of the consolidated group. Consideration paid or received should be recognised directly in equity.

**Interest, Dividends, Losses and Gains**- Interest, dividends, losses and gains relating to a financial instrument or a component of financial instrument that is a financial liability should be recognised as income or expense in the statement of profit and loss. Distributions to holders of an equity instrument should be debited by the entity directly to an appropriate equity account, net of any related income tax benefit. Transaction costs of an equity transaction should be accounted for as a deduction from equity net of any related income tax benefit.

**Offsetting a Financial Asset and a Financial Liability**- A financial asset and a financial liability should be offset and the net amount presented in the balance sheet when and only when, an entity:
(a) currently has a legally enforceable right to set off the recognised amounts; and
(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity should not offset the transferred asset and the associated liability.

**AS-32 Financial Instruments: Disclosures**
- Different categories of financial assets-
- Different categories of financial liabilities
- Re-classifications of financial assets.
- De-recognition of financial assets and financial liabilities.
- Financial assets pledged or held as collateral.
- Allowances for credit losses.
- Compound financial instruments with multiple embedded derivatives.
- Defaults and breaches for loan payable.
- Income, expense, gains or losses recognized in profit and loss account.
- Accounting policies followed.
- Hedge Accounting
- Fair value determination for financial assets and liabilities
- Risk disclosures.

**Recent Developments w.r.t. Reporting**

A panel appointed by the Securities Exchange Board of India, or SEBI, has cleared a proposal that requires listed companies to restate their financial statements if their auditor comes up with adverse comments i.e. audit qualifications.

The decision, if endorsed by the Sebi board, will give the stock exchanges an overarching authority to call for restatement of a company’s accounts. A proposal to this effect has been cleared in the discussions in the sub-group on accounting irregularities. The chief executive officer or chief financial officer of a company will bear the cost of the fresh audit. This will ensure that those responsible for the mistake pay for the folly and not the shareholders. The Committee on Disclosures and Accounting Standards has recommended that stock exchanges be authorised to ‘prima-facie’ act on any ‘material’ qualification made by an auditor to seek a restatement of the company’s accounts. Listing agreement that stock exchanges enter into with companies will have to be modified to accommodate the new rule. The proposal, if accepted, will provide auditors a final say on a company’s accounts as compared to the current practice of making a note of their
qualified remarks. As per the proposal, while filing their annual reports companies will have to submit a declaration before the exchange giving details about the audit qualifications, if any. The stock exchange can then seek further inputs from the company and the auditor. Based on the information, the stock exchange will have to decide if the audit qualifications raised are ‘material’. The exchange can then forward the case to SEBI. The regulator will discuss the seriousness of the qualifications with the Institute of Chartered Accountants of India before ordering the company to restate its accounts. The committee has defined a material qualification as one, which if corrected, may influence the decisions of the users of the financial statement. While considering the nature of qualification, aspects on corporate governance and impact on future results will be considered. As per the draft report, the cost of preparing, auditing and distributing the restated accounts will be borne by the CEO/CFO of the company. In most developed capital markets, an audit qualification is looked at seriously and SEBI is trying to instill the same discipline in India. This is a step in the right direction. In the long run it will make financial statements of Indian entities more robust and reliable and will strongly boost investor confidence in Indian stock markets. While the fear of restatement and the consequent cost of lawsuits are expected to keep companies on the straight and narrow path, global experience has demonstrated time and again that this would also result in an increased administrative and financial burden that is detrimental to the interest of the both companies and the investor community.

4.5 Sample reporting

Following are the disclosures made by one of the companies selected for study M/s. Perfect Circle India Limited for the F.Y. 2009-10. It gives the clear idea about the reporting done by large scale units while preparing and issuing their Financial Statements.
Perfect Circle India Limited

Schedules forming part of the accounts for the year ended March 31, 2010

Schedule ‘17’

Statement of Significant Accounting Policies

1. Accounting Convention:

   The financial statements have been prepared to comply in all material aspects with all the applicable accounting principles in India, the applicable accounting standards notified under Section 211(3C) of the Companies Act, 1956 and the relevant provisions of the Companies Act, 1956.

2. Fixed Assets and Depreciation:

   a) Fixed Assets (except in respect of assets which have been revalued) are stated at their original cost (net of CENVAT credit where applicable) including freight, duties, customs and other incidental expenses relating to acquisition and installation. Interest and other finance charges paid on loans for the acquisition of fixed assets are apportioned to the cost of fixed assets till they are ready for use.

   b) Expenditure incurred during the period of construction is carried forward as capital work-in-progress, and on completion the costs are allocated to the respective fixed assets.

   c) Depreciation on fixed assets, other than those assets, which have been revalued, has been provided on straight-line method at the rates and in the manner specified under Schedule XIV of the Companies Act, 1956 except in case of Computers and Computer Software where the rate is 31.67%.

   d) The leasehold land is amortized over the lease period.
e) *In respect of assets revalued on 29.02.1984, depreciation has been provided on gross values based on life of each asset as indicated by valuers (refer Note 6 on Schedule 18).*

f) *Technical know-how fees are amortized over a period of 6 years.*

3. **Investments:**
Long-term investments are stated at cost. A provision for diminution is made to recognise a decline, other than temporary, in the value of Long-term investments.

4. **Valuation of Inventories:**
   Raw and Packing Materials and Trading Goods are valued at weighted average cost, due allowance being made for obsolete and slow moving items.
   Work-in-Progress is valued at cost, which includes raw material cost and applicable manufacturing overheads.
   Finished Goods are valued at lower of cost or net realisable value.
   Costs include material costs and applicable manufacturing overheads.

5. **Revenue Recognition:**
   Revenue from sale of goods is accounted for as per the terms of sales i.e. when there is a transfer of significant risks and rewards of ownership to the buyer and Company retains no effective control of the goods transferred to a degree usually associated with ownership.
   Sales are recorded net of amount recovered towards sales tax and are net of sales returns.

6. **Foreign Currency Transactions:**
   Foreign Currency transactions are recorded at the exchange rates prevailing on the date of such transactions. Foreign currency monetary assets
and liabilities as at the Balance Sheet date are translated at the rates of exchange prevailing on the Balance Sheet date. Gains and losses arising on account of differences in foreign exchange rates on settlement/translation of foreign currency monetary assets and liabilities are recognised in the Profit and Loss Account.

Non-monetary foreign currency items are carried at cost.

In respect of forward contracts, other than forward contracts in respect of firm commitments and highly probable forecast transactions, the premium or discount arising at the inception of forward exchange contract, is amortised as expense or income over the life of the contract. Exchange differences on such contracts are recognised in the Profit and Loss Account in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract is recognised as income or as expense for the year.

Any profit or loss arising on settlement or cancellation of other derivative contract (forward contracts in respect of firm commitments and highly probable forecast transactions, swaps and currency options) is recognized as income or expense for the year. Pursuant to The Institute of Chartered Accountants of India’s announcement ‘Accounting for Derivatives’, the Company marks-to-market all outstanding derivative contracts at the year-end and the resultant mark-to-market losses, if any, are recognised in the Profit and Loss Account.

7. **Research and Development:**

Current revenue expenditure on Research and Development is charged as an expense in the year in which it is incurred. Expenditure, which results in creation of a capital asset, is capitalized under Fixed Assets and depreciation, provided on such assets as applicable.
8. **Retirement Benefits:**

i) **Post-employment Benefits**

a) **Defined Contribution Plans:**

The Company has Defined Contribution Plans for Post employment benefit in the form of Provident Fund for all employees and Superannuation Fund for Managers which is administered by Regional Provident Fund Commissioner and Perfect Circle India Limited Employees Superannuation Trust respectively.

b) **Defined Benefit Plans:**

Funded Plan: The Company has defined benefit plan for Post-employment benefit in the form of Gratuity for all employees which is administered through Life Insurance Corporation (LIC).

Liability for above defined benefit plan is provided on the basis of valuation, as at the Balance Sheet date, carried out by independent actuary. The actuarial method used for measuring the liability is the Projected Unit Credit method (PUC).

ii) **Other Long-term Employee Benefit:**

Liability for Compensated Absences is provided on the basis of valuation, as at the Balance Sheet date, carried out by independent actuary. The Actuarial valuation method used for measuring the liability is the Projected Accrued Benefit method which is the same as the Projected Unit Credit method in respect of past service. Under this method, the Defined Benefit Obligation is calculated taking into account pattern of availingment of leave whilst in service and qualifying salary on the date of availingment of leave. In respect of encashment of leave, the Defined Benefit Obligation is calculated taking into account all types of decrement and qualifying salary projected up to the assumed date of encashment.
iii) The Actuarial gains and losses arising during the year are recognized in the Profit and Loss Account of the year without resorting to any amortization.

9. **Borrowing Costs:**

Borrowing Costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized till the month in which the asset is ready to use as part of the cost of that asset. Other borrowing costs are charged to revenue account.

10. **Accounting for Taxes on Income:**

Tax expense (tax benefit) is the aggregate of current year tax and deferred tax charged (or credited) to the Profit and Loss Account for the year and measured at the tax rates that have been enacted or substantially enacted by the Balance Sheet Date.

**a) Current Year Charge**

The provision for taxation is based on assessable profits of the Company as determined under the Income Tax Act, 1961. Provisions are recorded as considered appropriate for matters under appeal due to disallowances or for other reasons.

**b) Deferred Tax**

The Company provides for deferred tax using the liability method, based on the tax effect of timing differences resulting from the recognition of items in the financial statements and in estimating its current income tax provision.

Deferred Tax Assets arising from temporary timing differences are recognized to the extent there is reasonable certainty that the assets can be realized in future.
11. **Export Incentive:**

Export Incentive in respect of exports made under the Duty Drawback (DBK) Receivable Scheme, as per the Import Export Policy, is recognized at a point of reasonable certainty of its ultimate collection.

12. **Leases:**

Leases of Fixed assets where the Company assumes substantially all the benefits and risks of ownership are classified as Finance leases. Finance leases are capitalized at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability amount and interest so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in payables. The interest amount of the Finance Charges is charged to the Profit and Loss Account over the lease period.

Lease rentals in respect of assets taken on “Operating Lease” are charged to the Profit and Loss Account on accrual basis.

13. **Accounting Estimates:**

The preparation of financial statements requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities on the date of financial statements and the reported amounts of revenue and expenses during the reporting period. Difference between the actual results and the estimates are recognized in the period in which the results are known/ materialised.

**Schedule ‘18’**

**Notes to the Accounts**

1. Estimated amount of contracts remaining to be executed on Capital Account
(Net of Capital Advances) and not provided for Rs. 2,617,275.
(Previous Year Rs. 5,692,686)

2. Contingent Liability in respect of:
   (i) Income tax matters: Rs. 52,566,375 (Previous Year Rs. 50,573,159)

   (ii) Excise and Service tax matters: Rs. 1,892,480 (Previous Year Rs. 3,196,107)

   (iii) Sales tax matters: Rs. 5,884,283 (Previous Year Rs. 2,439,802)
         (Including pending ‘C’ Forms and ‘F’ Forms)

3. Share Capital includes:
   (i) 30,609,560 (Previous Year: 30,609,560) Equity Shares held by Asia
        Investment Private Limited, Holding Company.

   (i) 4,700 Equity Shares of Rs. 10 each, allotted as fully paid up pursuant to
       a contract for supply of Machinery without payment received in cash.

   (ii) 118,550 Equity Shares of Rs. 10 each allotted as fully paid up by way
        of Bonus Shares by capitalisation of reserves.

   (iii) 2,082,048 Equity Shares of Rs. 10 each allotted as fully paid up by
         conversion of Partly Convertible Debentures.

Pursuant to the Scheme of Arrangement demerging the Gaskets business into Victor Gaskets India Limited in the financial year 2001-02 and the consequential reorganization of the capital, the face value of shares was reduced to Rs. 8 each.
Shareholders approved the sub-division of the face value of equity shares from Rs. 8 per share to Re. 1 per share in the Annual General Meeting of the Company held on July 27, 2004. The sub-divided shares were allotted on October 01, 2004. Consequently, the total number of equity shares has increased to 33,336,568.

4. Secured Loans:
   A) Securities against Working Capital facilities:
   The Working Capital facilities are secured by hypothecation of the Company’s inventories, receivables and by a second subsequent charge created on the Company’s immovable properties and rank pari-passu inter-se amongst bankers.

   B) Term Loan from Others
   The Company has taken a Medium term loan from SICOM. It is secured by way of 1st pari-passu charge on all the moveable and immovable assets of the Company.

   C) Vehicle loan from banks are secured by hypothecation of assets financed by them.

5. Loans and Advances include amount due from Director and officers of the Company Rs. 1,602,093 [Maximum amount due at any time during the year Rs. 1,629,515] (Previous Year Rs. 108,000 and Rs. 189,996 respectively).

6. Fixed Assets (other than those, which have been revalued) are stated at their original cost. Land, Buildings, Plant and Machinery and Furniture and Fixtures are restated at valuation made by Messers. Universal Surveyors and Adjusters Private Limited, Mumbai, consulting engineers and valuers at their current replacement values aggregating Rs. 107,528,920 as at February 29, 1984. The resultant increase in the
net book value arising from such revaluation amounting to Rs. 39,640,366 has been transferred to Revaluation Reserve Account in the year ended February 29, 1984. Depreciation attributable to the enhanced value of the assets arising on revaluation amounting to Rs. 194,960 has been transferred from Revaluation Reserve Account to the credit of the Profit and Loss Account.

7. Segmental Reporting:
   a) **Primary Segment:**
      The Company operates only in one business segment viz. Auto Components and Parts.

   b) **Secondary Segment:**
      The Segment Revenue in the geographical segments considered for disclosure is as follows:

      Rs. (‘000)
      
      | Segment Revenues          | 2009-2010 | 2008-2009 |
      |---------------------------|-----------|-----------|
      | Revenue outside India     | 235,725   | 2,75,252  |
      | Revenue within India      | 603,124   | 5,24,295  |
      
      All assets of the Company are located in India.

8. Related party disclosures:
   Related party disclosures as required by AS-18, "Related Party Disclosures", are given below:

   **A) Name of the related party# and nature of relationship where control exists:**

   **Name of the related Party#**  **Nature of relationship**
   
   Anand Automobile Private Limited Ultimate Holding Company
Asia Investments (India) Private Limited Holding Company

B) Following transactions were carried out in the ordinary course of business with parties referred to in (C) below:
<table>
<thead>
<tr>
<th>Particulars</th>
<th>Holding Company</th>
<th>Fellow Subsidiary</th>
<th>Key Management Personnel</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Managerial Remuneration</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. P.K. Shrivastava</td>
<td>(-)</td>
<td>(-)</td>
<td>1,490</td>
</tr>
<tr>
<td>Mr. A. K. Agarwal</td>
<td>(-)</td>
<td>(-)</td>
<td>89</td>
</tr>
<tr>
<td>Mr. S. C. Korde</td>
<td>(-)</td>
<td>(-)</td>
<td>(6,450)</td>
</tr>
<tr>
<td><strong>Services Received</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anand Automotive Systems Limited</td>
<td>(-)</td>
<td>(27,792)</td>
<td>(-)</td>
</tr>
<tr>
<td>Victor Gasket India Limited</td>
<td>(-)</td>
<td>16,002</td>
<td>(-)</td>
</tr>
<tr>
<td><strong>Reimbursement of Services Rendered</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anand Automotive Systems Limited</td>
<td>(-)</td>
<td>(7,888)</td>
<td>(-)</td>
</tr>
<tr>
<td>Victor Gasket India Limited</td>
<td>(-)</td>
<td>(14,478)</td>
<td>(-)</td>
</tr>
<tr>
<td><strong>Outstanding as on March 31, 2010</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sundry Creditors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anand Automotive Systems Limited</td>
<td>(-)</td>
<td>1,314</td>
<td>(-)</td>
</tr>
<tr>
<td>Victor Gasket India Limited</td>
<td>(-)</td>
<td>(3,036)</td>
<td>(-)</td>
</tr>
<tr>
<td><strong>Advances Given</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. P.K. Shrivastava</td>
<td>(-)</td>
<td>(-)</td>
<td>1,602</td>
</tr>
<tr>
<td></td>
<td>Mr. A. K. Agarwal</td>
<td>Mr. S. C. Korde</td>
<td>Victor Gasket India Limited</td>
</tr>
<tr>
<td>---------------------------</td>
<td>-------------------</td>
<td>----------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>2,640</td>
</tr>
<tr>
<td></td>
<td>(-)</td>
<td>(-)</td>
<td>(-)</td>
</tr>
<tr>
<td>Advances</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. A. K. Agarwal</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(-)</td>
<td>(-)</td>
<td>(2,250)</td>
</tr>
<tr>
<td>Anand Automotive Systems Limited</td>
<td>-</td>
<td>142,500</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(-)</td>
<td>(143,180)</td>
<td>(-)</td>
</tr>
<tr>
<td>Victor Gasket India Limited</td>
<td>-</td>
<td>3,250</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(-)</td>
<td>(3,250)</td>
<td>(-)</td>
</tr>
</tbody>
</table>

C) Relationships:

<table>
<thead>
<tr>
<th>Name of the related Party#</th>
<th>Nature of relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anand Automotive Systems Limited</td>
<td>Fellow Subsidiary Company</td>
</tr>
<tr>
<td>Victor Gasket India Limited</td>
<td>Fellow Subsidiary Company</td>
</tr>
<tr>
<td>Mr. A.K. Agarwal</td>
<td>Key Management Personnel (Till April 9, 2009)*</td>
</tr>
<tr>
<td>Mr. S.C. Korde</td>
<td>Key Management Personnel (From August 1, 2009 to November 4, 2009)*</td>
</tr>
<tr>
<td>Mr. P.K. Srivastava</td>
<td>Key Management Personnel (From January 1, 2010)*</td>
</tr>
</tbody>
</table>

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Related party disclosures being identified and certified by the Management, the information given above has been disclosed on the basis of information available with the company. Previous year’s figures are shown in brackets.

* Excluding non-executive Directors.

# As identified and certified by the Management.

9. Earnings per Share:

<table>
<thead>
<tr>
<th></th>
<th>2009-2010</th>
<th>2008-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted Average number of equity shares outstanding during the year</td>
<td>33,336,568</td>
<td>33,336,568</td>
</tr>
<tr>
<td>Net Profit for the year as reported (Rs. ‘000)</td>
<td>71,802</td>
<td>(894)</td>
</tr>
<tr>
<td>Earning per Share (Rs.) Basic and Diluted</td>
<td>2.15</td>
<td>(0.03)</td>
</tr>
<tr>
<td>Nominal Value of Shares (Re.)</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

10. The Company estimates deferred tax charge / (credit) using the applicable rate of taxation based on the impact of timing differences between financial statements and estimated taxable income for the current year. The net deferred tax liability is as given below:

Rs. (‘000)

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2010</th>
<th>March 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Timing Differences on account of:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets -</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs of Voluntary Retirement Scheme</td>
<td>-</td>
<td>(71)</td>
</tr>
<tr>
<td>Expenses allowable on payment basis</td>
<td>(1,142)</td>
<td>(2,469)</td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td>-</td>
<td>(635)</td>
</tr>
<tr>
<td>Provision for doubtful advances</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Stamp Duty</td>
<td>(1329)</td>
<td>(1360)</td>
</tr>
</tbody>
</table>
12. The company has complied this information based on the current information in its possession. As at March 31, 2010, no supplier has intimated the company about its status as Micro and Small Enterprises or its registration with the appropriate authority under the Micro, Small and Medium Enterprises Act, 2006.

4.6 Conclusion

From the above discussion, it is clear that General purpose financial statements complying with accounting standards should present fairly the financial position, financial performance and cash flows of an organisation. This information will be useful to owners, investors, creditors, analysts, employees, regulators and others in making and evaluating decisions about the allocation of scarce economic resources.

When corporations and other organisations comply with accounting standards, their general purpose financial statements should be more comparable than they would otherwise be. This allows investors and other users of the financial statements to better compare the organisations.

Financial statements also provide one means by which the management and governing body of an organisation are accountable to those who provide resources to the organisation. The provision of information for accountability purposes is a particularly important aspect of financial reporting by public sector organisations and not-for-profit entities in the private sector. While reading the financial statements, only statements do not give the full and clear picture about the financial position of the organization. The notes annexed to Financial Statements and Significant Accounting Policies attached to the
statements give a very clear picture about the financial position and one comes to know the detailed position and accounting treatment of various items appearing in financial statements. Disclosure of such significant Accounting Policies is required and mandatory due to the provisions of AS-1 and corresponding Disclosure requirements specified in various Accounting Standards.

As per recent developments it may be notified that listed companies will have to reinstate their financial statements if their auditor comes up with adverse comments i.e. audit qualifications. In such case, the chief executive officer or chief financial officer of a company will bear the cost of the fresh audit. The Committee on Disclosures and Accounting Standards has recommended that stock exchanges be authorised to ‘prima-facie’ act on any ‘material’ qualification made by an auditor to seek a restatement of the company’s accounts. This will provide auditors a final say on a company’s accounts as compared to the current practice of making a note of their qualified remarks. As per the proposal, while filing their annual reports companies will have to submit a declaration before the exchange giving details about the audit qualifications, if any. The stock exchange can then seek further inputs from the company and the auditor.