Chapter 10
Analysis and Interpretation

10.1 Introduction

Present work ‘Development of Indian Accounting Standards and its impact on Financial Reporting in certain Large Scale Companies in Nashik’ is completed in Eleven Chapters. A brief summary of research work is narrated as below:-

10.2 Summary-

Chapter 1 elaborates the Research Methodology adopted for carrying out the research work. Initially the development of Accounting Standards in India is explained. This chapter with the need, advantages of Accounting, its origin and statutory requirements. It also includes Need of Study, Objectives of Research, definition of Research Methodology, steps in Research, Research Objective, Plan. It also gives emphasis on sources of data used by the researcher and collection, analysis thereof. In the end scope and limitation of study are specified.

Chapter 2 deals with the procedure of issuing Accounting Standards. As Accounting Standards are issued by ASB of ICAI, its formation, procedure of issuing Accounting Standards, their applicability, importance etc. are discussed in detail in this chapter. Development of Accounting Standards in India can be traced out with the issuance of Accounting Standards by ASB.

Chapter 3 gives all Thirty –Two accounting standards issued by ICAI till date. This chapter introduces all these AS in short one by one. The important part which is useful for accountants to report the business results are given special attention while preparing summary. Applicability of AS to various organizations according to their size etc. is also covered in this chapter. In the end, Total
number of Accounting Standards issued till date are reconciled with the International Accounting Standards.

**Chapter 4** gives the reporting requirements as required by the issuance and implementation of Accounting Standards. Before that applicability of Accounting Standards and advantages of AS are also stated in detail.

**Chapter 5** gives the details of Financial Statements as required to be issued by the statutory provisions of Companies Act, 1956. It also states the additional information to be disclosed along with Financial Statements.

**Chapter 6** is all about the Industrial growth and importance of the Nashik city in business. Data as regards to industrial units, size, MIDC, amenities, employment etc. are covered. Details regarding Nashik’s history and its pilgrimage status are covered.

**Chapter 7** introduces all the companies selected for study. This chapter introduces the companies selected for study in brief.

**Chapter 8** deals with the Auditor’s Reports and financial statements of the companies selected for study. It also discuss the position of accounting standards w.r.t. Financial statements and their implementation in various companies selected for study. It is verified whether there are any deviations from AS applicable. The financial statements collected from all these companies are analyzed in detail with special reference to implementation of accounting standards, their reporting in financial statements and changes in reporting as per developed, newly introduced and amended existing accounting standards. While selecting companies, they are from different lines of business which helped to cover maximum accounting standards.

This chapter throws light on the profitability of the company yearwise as well various accounting standards used by the company while preparing and publishing their financial statements in last 5-6 years. There are certain amendments to existing AS, certain AS are revised and new accounting standards are also issued and made mandatory to the reporting units. Their cognizance
must be taken by all these public limited companies while finalizing the operating results of the company. This aspect is also seen in detail.

This Chapter is the core chapter mainly based on the primary data collected by researcher. Whereas the other chapters are based on the secondary data collected.

**Chapter 9** deals with the recent development in the field of Accounting Standards. In near future, International Financial Reporting Standards are to be implemented in India also so that financial statements of all the companies will be at par with other business units located anywhere in the world. Cognizance of IFRS, their implementation in Indian scenario and their comparison with existing AS of ICAI are also given at the end of this chapter.

**Chapter 10** includes analysis and interpretation of data collected for the study. It explains the meaning of data, its importance, processing of the same to get some concrete conclusions from the same and interpretation of the results or outcome of such processing.

**Chapter 11** is the last chapter of this thesis. It narrates the problems relating to AS, testing of Hypothesis and topics for further research are also given in this chapter. This chapter also includes the recommendations considering the problems relating to implementation. Researcher’s broad observation is that large scale companies normally observe and try to follow the Accounting Standards as specified and issued by ASB of ICAI. But sometimes, newly introduced AS are not followed with immediate effect as well amendments are not followed immediately. In rare cases, AS are not followed so that profitability of the reporting entities does not affect negatively. Persons implementing the accounting of an enterprise are not fully acquainted with the Accounting Standards applicable for their enterprise as well do not know the technicalities for implementation of AS. They play very important role in Financial Reporting in Large Scale Units.
10.3 Analysis

From the discussions in various chapters of this thesis, it can be said that Accounting Standards are nothing but standard set of rules to standardize the diverse accounting policies and practices and with a view to eliminate to the extent possible the non comparability of financial statements and to add reliability of financial statements. Considering the importance of the AS, the ICAI, the apex body for Accounting in India has formed separate Accounting Standards Board and it has autonomy for issuing Accounting Standards. But at the same time before issuing final draft, every opportunity is given to all the concerned who can be affected or who will have to comply with the Accounting Standard to be issued. Exposure draft is amended as per the suggestions and objections of all such concerned and then only final draft of AS is issued. Again review of existing AS is taken on ongoing basis and if required, it is revised following the same procedure as applicable for issuance of new AS.

The Accounting Standards issued by ICAI cover almost every aspect of Accounting and now they are almost at par with the International Accounting Standards. As on date there are thirty two Accounting Standards issued by the ASB and they are very useful for the Accountants to prepare the Financial Statements of the organization.

As per the provisions of Companies Act, companies have to follow and comply with the Accounting Standards as specified in the Act. The objective of Accounting Standards is to reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises with a view to provide meaningful information to various users of financial statements to enable them to make informed economic decisions. This helps a lot to all large scale companies as well as the users and readers and other related parties.
The issuance of AS is a continuous process and AS as applicable today have evolved a period of 30-35 years. The development in Accounting Standards have made changes in the Financial Statements issued by Public Limited Companies. Disclosure of Information alongwith the Financial Statements have also changed as per the implementation of newly issued AS. The effect on profitability as well on Financial Position is also recorded either by way of notes or in disclosure of compliance of Accounting Policies. Major non-compliance having adverse effect is stated by the Auditors on the face of the Auditors Report by way of adverse opinion i.e. qualification in Auditors Report.

The companies selected for study have complied with all the applicable AS except in case of one company. All of them have complied with the statutory provisions of Companies Act with respect to preparation of Financial Statements and disclosure of information alongwith Financial Statements. The companies having large scale operations have set up separate Accounts and Finance Department to look after the compliance of Accounting and Taxation and other regulatory compliances. These departments are headed by Professionally Qualified Chartered Accountants and proper care is taken for compliance of various provisions of Companies Act with respect to Accounts and Audit as well compliance and implementation of Accounting Standards as issued by the Institute of Chartered Accountants of India.

In near future, IFRS implementation will take place. Those are to be implemented phase wise and schedule for the same is ready with the Department of Company Affairs. But as on date the same is postponed. The present era of globalisation has shrunk the geographical barriers. The whole world has literally become flat. Entities around the globe venture into business activities either through their own presence in different parts of the world or through their subsidiaries, associates and joint ventures. These entities are listed on major stock exchanges of the world. Given these scenarios, a common and uniformly accepted Financial Reporting System, supported by strong governance practices
and a firm regulatory framework, strengthens the economic development of any
country. As investors have also become global, financial statements of entities of
different countries should be comparable on prescribed common parameters. A
common set of financial statements help investors better understand investment
opportunities worldwide as against financial statements of different standards
unique to each country. Considering this importance of IFRS, India has also
prepared plan of convergence to IFRS over a period and accordingly, the ICAI
has issued Near Final Indian Accounting Standards (IND ASs) on 14th January,
2011 and has sent the same to the National Advisory Committee on Accounting
Standards (NACAS). It clearly shows that the implementation will start in first
phase in India at the earliest.

Different problems are being faced during the implementation of
Accounting Standards by various organizations. In case of Small Entities where
volume of transactions is on lower side or the organizations which cannot hire
out the services of a professional accountant do not follow AS. Similarly as the
duty is cast on the auditors to examine whether the Accounting Standard is
complied with in the presentation of financial statements covered by their audit,
the compliance is verified only in cases covered by audit. It is also seen that
normally unorganized sector units like Proprietorships, Partnerships, HUFs etc.
do not comply with the provisions of Accounting Standards. Compliance of AS
needs expertise. So it is observed that many large units also have not personnel
having that much of expertise and in normal practice, they are not complying
with the provisions of AS. In this regard there is a welcome move. A panel
appointed by the Securities Exchange Board of India, 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. In most developed
capital markets, an audit qualification is looked at seriously. SEBI is trying to
instill the same discipline in India. Accounting Standards Interpretation and
implementation as well as compliance needs expertise on the subject.
Considering the number of business organizations and mandatory nature of Accounting Standards, requisite number of manpower is not qualified. Considering this fact, training of accounting personnel working for industry and business is must.

### 10.4 Interpretations

The study is with respect to development of Accounting Standards and its impact on financial reporting. Major findings and interpretations of these aspects can be summarized as under:-

There is need of standard set of rules in the field of financial reporting. This need for accounting standards suitable for the country’s economic environment was also felt in India. Recognizing the need to harmonize the diverse accounting policies and practices in India and keeping in view the international developments in the field of accounting, the council of Institute of Chartered Accountants of India (ICAI) constituted the Accounting Standards Board (ASB) in April, 1977. The ASB determines the broad areas in which Accounting Standards need to be formulated and the priority in regard to the selection thereof. Accordingly, the first Accounting Standard (AS) was issued in the year 1979 - AS1- Disclosure of Accounting Policies. The process started is still continuing. Till the end of 1983, ASB had issued 7 AS. In the year 1985, three more AS (AS 8, AS 9 and AS 10) were issued. AS 11 to AS 15 were issued were respectively issued in 1989, 1991, 1993, 1994 and 1995. Lateron, AS 16 to AS 18 were issued in the year 2000. AS 19 to AS 23 were all issued in the immediately succeeding year 2001. Again AS 24 to AS 28 (Total Five) are issued in 2002 and AS 29 is issued in 2003. From this process it can be seen that in the first 4 years of its formation (i.e. Upto 1980) there was only one AS issued by ASB. But lateron in next 5 years (till 1985), ASB has issued 9 more AS. Till the end of 1999 (i.e. in 23 years of its formation), ASB had issued only 15 AS. But in next 4 years (2000 to 2003), 14 more AS were issued by ASB. This shows
the rapid development of AS. This development was made to cope up with the International Accounting Standards. But while doing so, the AS issued by ASB are framed in such a manner that they are suitable for Indian conditions. The reconciliation of Indian AS with International AS can be done as follows:-

**Reconciliation of the International Accounting Standards the Indian Accounting Standards (Till the issuance of AS 32)**

Number of International Accounting Standards 41

IASs) issued by the International Accounting Standards Committee (IASC) now International Accounting Standards Board)

Less: Number of IASs since withdrawn by the IASC (7)

Add: IAS 4 which has been withdrawn, however, 1 included here for reconciliation purposes because corresponding Accounting Standard of the ICAI (i.e. AS 6) is in force 1

35

Accounting Standards (ASs) and other documents issued by the Institute of Chartered Accountants of India

Number of Indian Accounting Standards issued (except AS 8 which is withdrawn pursuant to AS 26 becoming mandatory) 31

Number of Guidance Notes issued 1

IAS irrelevant to the Indian Economic conditions 1

Number of Accounting Standards under preparation 2

35

There is rapid development of Indian Accounting Standards and now they are at par with International Accounting Standards except for three more accounting standards which are under preparation by ASB.
All the mandatory Accounting Standards are applicable to almost all forms of organizations, say:-

(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.
(g) Co-operative Societies
(h) Companies- Private and Public Limited

It is also clarified by the council that all mandatory AS shall apply in respect of general purpose financial statements of the individual/ bodies listed above 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.
Criteria for classification of enterprises

For the purpose of applicability of Accounting Standards entities are classified into three categories by ICAI. Those are:-

Level I Enterprises

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

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.
(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors’ resolution in this regard.
(iii) Banks including co-operative banks.
(iv) Financial institutions.
(v) Enterprises carrying on insurance business.
(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include ‘other income’.
(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.
(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

Level II Enterprises (SMEs)

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 (SMEs)

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

Applicability of Accounting Standards:-

Level I Entities:- All the Accounting Standards are fully applicable to Level I Entities.

Level II and Level III Entities:- Applicability can be divided into three categories.

i. Some accounting standards are applicable to all entities. They are AS 1, AS 2, AS 4, AS 5, AS 6, AS 7, AS 8, AS 9, AS 10, AS 11, AS 12, AS 13, AS 14, AS 15, AS 16, AS 22, AS 26 and AS 28.

ii. Accounting Standards applicable but relaxation from certain disclosures requirements- AS 19, AS 20 and AS 29.

iii. Accounting Standards not applicable- AS 3, AS 17, AS 18 and AS 24, AS 21, AS 23, AS 25 and AS 27 are not applicable because of existing regulations in India.

Impact on Financial Reporting:-
All the business organizations have to prepare their financial statements as directed in various AS. Applicability of AS in India can be divided in two parts:- 1. For Non-Corporate Assessees and 2. Corporates / Companies.

APPLICABILITY OF ACCOUNTING STANDARDS FOR NON-CORPORATE ASSESSEES

Issue is being raised whether the Institute of Chartered Accountants of India (ICAI) should develop separate accounting standards for small enterprises/non corporate assessees. There may be three alternatives view point: - (a) The Institute of Chartered Accountants of India (ICAI) should not develop special accounting standards for small enterprises/non corporate assesses. All the accounting standards presently issued should be regarded as suitable for all entities including small enterprises/non corporate assesses.
(b) The Institute of Chartered Accountants of India (ICAI) should develop special accounting standards for small enterprises/non corporate assesses because of the following –
- Who are the users of the financial statements?
- How the financial statements are used?
- The depth and breadth of accounting expertise available to the small enterprises / non corporate assesses; and
- Their ability to bear the costs of following the same standards as the larger, publicly accountable entities
(c) The Institute of Chartered Accountants of India (ICAI) should modify/relax the requirement of the existing accounting standard for Small and medium enterprises (SMEs) / non-corporate assesses keeping in view their requirement. Here question may arise what types of modifications/relaxations should be done in existing accounting standard to make them suitable for Small and medium enterprises/non corporate assesses (SMEs). Whether modification/relaxations should be made to the recognition and measurement principles in accounting

359
standards or modifications/relaxations should be done only for disclosure requirements as prescribed in existing accounting standards? As per the notification issued by the ICAI in October 2003 there is no relaxation to Small and Medium Enterprises (SMEs) /non corporate assesses as regards to the recognition and measurement principles however notification makes relaxations in disclosure requirements for Small and Medium Enterprises (SMEs) /non corporate assesses in some cases.

**Applicability of Accounting Standards effective 01.04.2004**

The Institute of Chartered Accountants of India (ICAI) have notified in October 2003 certain relaxation in applicability of accounting standards after due consideration of the representations from industry and profession. The relaxations have been guided by the Small and Medium sized Enterprises (SMEs)/ non-corporate assesses level of preparedness and cost benefit analysis of Accounting Standards compliance in case of reporting and disclosure standards. The accounting standards applicability has been revised as under in respect of accounting periods commencing on or after 01.04.2004. For the purpose of applicability of accounting standards, enterprises are classified into three categories-
- Level-I enterprise
- Level-II enterprise
- Level-III enterprise

**Accounting Standards issued under section 145(2) of the Income-tax Act, 1961**

In exercise of the powers conferred by sub-section (2) of section 145 of the Income-tax Act, 1961, the Central Government hereby notifies the following accounting standards to be followed by all the assessee following mercantile system of accounting namely: –
(a) Accounting Standard I relating to disclosure of accounting policies;
(b) Accounting Standard II relating to disclosure of prior period and extra ordinary items and changes in accounting policies.

The above two accounting standards issued under section 145(2) are similar in all respects to corresponding accounting standards, AS-1 and AS-5 issued by the Institute of Chartered Accountants of India (ICAI)

**Accounting Standards Rules 2006**

**Applicability of Accounting Standards for Companies**

The Central Govt. in exercise of powers under Section 211(3C) of the Companies Act, 1956 notified the Companies (Accounting Standards) Rules, 2006 in the official Gazette w.e.f. accounting period commencing on or after 07-12-2006.

♦ The rules provide that Accounting Standards 1 to 7 and 9 to 29 recommended by the Institute of Chartered Accountants of India shall be the “Accounting Standards” (referred to as the “Notified Accounting Standards”) for the purposes of Section 211(3A) and (3B) and section 227(3) (d) of the Companies Act, 1956.

♦ The notified accounting standards for the most part, are a verbatim reproduction of the Accounting Standards as issued by the Institute of Chartered Accountants of India.

♦ All the 30 Accounting Standards Interpretations issued by Institute of Chartered Accountants of India have been incorporated at the relevant places by way of explanation except Accounting Standards Interpretations 11, 12, 27 and 29.

♦ The notified Accounting Standards are mandatory for all companies and their auditors except as exempted/relaxed for SMCs.

♦ Exemptions /relaxations to Small and Medium Companies (SMCs) have been given.
The definition of SMCs is much simpler than the definition of SMEs given by Institute of Chartered Accountants of India (which involved classifying enterprises and level-I Enterprises, Level-II Enterprises and Level-III Enterprises).

♦ AS-11 [which is exactly of AS-11(Revised 2003) issued by Institute of Chartered Accountants of India] will have overriding effect over the accounting treatment prescribed by Schedule VI in the matter of accounting for exchange differences in respect of borrowing and liability incurred for acquisition of fixed assets. [Foot Note No. 5 in AS-11]. ICAI’s announcement dated 10-10-2003 to the effect that the schedule VI shall prevail over AS-11 (Revised 2003) i.e. such exchange differences should be adjusted in asset account stands superseded. With the effect from the effective date of “Notified Accounting Standards” (i.e. accounting periods commencing on or after 07-12-2006), all such exchange differences will have to be adjusted in the profit and loss account instead of adjusting them in asset account.

♦ Presentations of consolidated financial statements remain optional as before. But if parent company opt for present consolidated financial statements, compliance with relevant accounting standards is mandatory.

**Small and Medium Companies (SMCs)** - Small and Medium Companies (SMCs) have been defined as in rule 2(f), as per the rule, company which satisfies all the following five conditions as at the end of the accounting period shall be called SMC.

(a) the equity dept securities of the company are not listed or in the process of listing of any stock exchange, whether in India or outside India

(b) the company is not a bank or financial institution or insurance company

(c) the company’s turnover (excluding other income) does not exceed Rs.50 crore in the immediately preceding accounting year

(d) the company does not have borrowing (including public deposits) exceeding Rs. 10 crore at any time during the immediately preceding accounting year and
(e) The company is not a holding company or subsidiary of a non-SMC

**Enterprise**

Rule 2 (e) has given the new definition of “enterprise” which means a company as defined in Section 3 of the Companies Act, 1956. Wherever the word “enterprise” has been used in notified accounting standards this will mean company registered under Companies Act, 1956.

**Exemptions/relaxations to SMCs –**

The SMCs are given the following relaxation in complying the notified accounting standards –

♦ SMCs need not to prepare cash flow statement as per AS-3 and need not to disclose the segment reporting as AS-17.

♦ The SMCs have been given following relaxation as regards AS-15 “Employee Benefits”
- SMCs need not comply Para 11 to 16 of AS-15 to extent date deal with recognition and measurement of short-term accumulated compensating absences.
- Discounting the amount payable after 12 months of balance sheet as regards defined contribution plans and termination benefits.
- Recognition, measurement and disclosure principles in respect of defined benefit plans and other long-term employee benefits plan. However such enterprises should provide and disclose the accrued liability in respect of defined benefit plan and other long-term employee benefit plan as per actuarial valuation based on projected unit credit method and discount rate based on yield on Government bonds.

♦ SMCs need not disclose diluted EPS as AS-20 “Earning per Share”

♦ SMCs need not comply with disclosure requirements regarding operating leases of sub- Para (b) and (d) of Para 46 and sub-Para (a), (b) and (e) 25 of Para 25 of AS-19 “Leases” and sub-Para (a) and (f) of Para 37 and sub-Para (c), (e)
and (f) of Para 22 of AS-19 regarding disclosure for finance lease by the lessor and lessee respectively.

♦ Value-in-use has been differently defined for SMCs which provides and alternate to calculate value-in –use based on a reasonable estimate of future cash flows.

♦ SMCs are exempt from disclosure requirements of Para 66 and 67 of AS-29 regarding provisions and its descriptions.

**Asset linked exchange difference** - Instructions contain in part-I of schedule-VI of the Companies Act, 1956 regarding adjustment of exchange difference in the carrying amount of the fixed assets due to change in the rate of exchange of fixed assets linked liability denominated in foreign exchange has been superseded. Therefore, AS-11 (Revised 2003) will apply and such exchange difference shall be recognised in profit and loss account and will not be capitalised with the cost of fixed assets.

**AS-18 “Related Party Disclosures”** will now apply to all companies including SMCs and as no exemptions/ relaxations has been given by Companies (Accounting Standards) Rules, 2006.

**Change in status of the company**

(a) **From SMC to Non- SMC** -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 has availed of the exemptions or relaxations available to SMC shall be disclosed in the notes to the financial statements.
(b) From Non-SMC to SMC - An existing company, which was previously not a 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.

Disclosure by SMC - Companies (Accounting Standards) Rules, 2006 provides that SMC should make the following disclosures by way of notes to accounts:

♦ The SMC which does not disclose certain information pursuant to the exemptions or relaxations given to it shall disclose 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 “The Company is a SMC as defined in the general instruction in respect of accounting standards noticed under the Companies Act, 1956. Accordingly, the company has complied with the accounting standards as applicable to a SMC”

♦ If an SMC opts not to avails of the exemptions or relaxations available to an SMC is respect of any but not all of accounting standards, it shall disclose the standard(s) in respect of which it has availed the exemption or relaxations

♦ 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 standards

♦ The SMC may opt for availing certain exemptions or relaxations from compliances with the requirements prescribed in an accounting standard provided that such a partial exemptions or relaxations and disclosures shall not be permitted to mislead any person or public.

Impact of Accounting Standards on Reporting:-

Accounting Standards is the essence of preparing the Financial Statements. Proper cognizance of all the Accounting Standards are to be taken before finalizing the Annual Results of any Business Organizations. They are to
be strictly followed. Any non-compliance or deviation is also to be disclosed in the financial statements. Impact on reporting can be summarized as under:-

1. All the business organizations whose reports are useful and are to be made available to the users of the same have to follow and implement AS while preparing the Financial Statements. As clarified by the central council of ICAI that all mandatory AS shall apply in respect of general purpose financial statements of the individual, firms, co-op. societies, trusts, HUF, AOPs, Companies where such statements are statutorily required to be audited under any law.

2. 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. Explanatory Notes and Other Statements are normally required to comply with the AS issued by ICAI.

3. All the listed companies issue / publish such Financial Statements after the completion of financial year. The Balance Sheet, Profit and Loss A/c and Schedules thereof are the integral part of Balance Sheet. Alongwith these financial statements, every company publish Notes to Accounts and Significant Accounting Policies.

4. The Notes forming part of the accounts are explanations on various items of Profit and Loss A/c and Balance Sheet. Detailed itemwise list, details of secured loans and security given, Details of Contingent Liability, some additional disclosures necessary to clarify on various items of financial statements are some of the examples of Notes to Accounts.
5. Separate schedule is also provided for Significant Accounting Policies. It is nothing but compliance of AS-1 Disclosure of Accounting Policies. In this schedule, normally all the companies given their accounting policy with respect to all the accounting standards applicable to the company.

6. The Accounting Standards which has made drastic change in the financial reporting (i.e. presentation or disclosure) or also which have impact on the reporting (i.e. w.r.t. profits or financial position) are as under:-

AS -3 Cash Flow Statements:- All Level I Enterprises started disclosing Cash Flow Statement by way of separate enclosure to the Financial Statements.

AS – 15 Retirement Benefits:- Companies started disclosing their policy w.r.t. Defined Contribution Plans, Defined Benefit Plans, Acturial assumptions etc. as per the disclosure requirements of the said Standard.

It is observed that some companies did not start complying with the provisions of this standard from a later date than specified by ICAI (i.e. from 01.04.2006). The companies had to provide for the retirement benefits as this standard became mandatory which has affected the profits of the companies. In the first year of implementation, accumulated effect was given. Transitional impact is also shown separately.

AS- 17 Segment Reporting:- Entities started disclosing the segments – Primary and Secondary relating to the business of the entity. Similarly, Segment Revenues, Assets, Liabilities and relevant details are also disclosed.

AS – 18 Related Party Disclosures:- Companies in this disclosure give the list of related parties first and then also provide the details of transactions entered with those parties during the period under consideration.

AS- 20 Earning Per Share:- As required by this AS, the financial statement on the face of the Profit and Loss Account itself. In addition to above, it also give all
the details of earnings and calculation of Basic and Diluted EPS in the disclosures attached to Financial Statements.

AS 22 Accounting for Taxes on Income:- The table showing calculation of Deferred Tax Asset or Liability is given. Some companies have started implementation and disclosure of this Accounting Standard from a later date than it was made mandatory (i.e. from 01.04.2001). The implementation of this AS has also affected the PAT of the companies.

It is also observed that all other Accounting Standards are also implemented and separate disclosures are also given w.r.t. compliance and policy followed by the company for that AS.

7. Auditors have to verify while discharging their attest functions 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 deviation.

8. Ensuring compliance with the Accounting Standards while preparing the financial statements is the responsibility of the management of the enterprise. Statutes governing certain enterprises require the financial statements should be prepared in compliance with the Accounting Standards, e.g., the Companies Act, 1956 (section 211), and the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor’s Report of Insurance Companies) Regulations, 2000.

9 Financial Statements cannot be described as complying with the Accounting Standards unless they comply with all the requirements of each applicable Standard.
10.5 Conclusion:-

From the discussion in various earlier chapters, it is true that there are different problems relating to implementation of Accounting Standards by various organizations. But in case of large scale organizations, qualified and professional personnel take care of the statutory compliances with respect to Accounts, Audit and Accounting Standards. Considering the global developments and international trade, now Indian Corporates should keep themselves ready for adoption of IFRS so their Financial Statements are accepted and can be used by users spread all over the world. The gradual development in Accounting Standards have definitely made impact on reporting by corporates. The financial position have also affected by implementation of newly issued AS. But at the same time only because of implementation of AS standardized and uniform practices are followed by business entities and it has also added to the comparability and reliability of financial statements.