CHAPTER 3

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CHAPTER 3
ACCOUNTING REGULATORY FRAMEWORK AND ITS RULES

Generally Accepted Accounting principles (GAAP) of a country plays very important role in accounting and reporting practices. ‘The GAAP are guidelines for specific accounting issues, which are to be followed by the preparers of financial statements’¹. Each country have own set of GAAP, which is set out by statutory bodies and some professional accounting bodies of that country. ‘Indian GAAP comprises a set of pronouncements issued by various regulatory authorities But is predominantly controlled by the Institute of chartered Accountant of India (ICAI)². In our country different regulatory authorities such as Department of Company Affairs (now renamed as Department of Corporate Affairs), Securities and Exchange Board of India (SEBI), Accounting Standard Board (ASB) of Institute of Chartered Accountant of India (ICAI), Reserve Bank of India (RBI) and Insurance Regulatory development Authority (IRDA) etc. is empowered to regulate different issues including accounting and reporting issue. However, for accounting and reporting the main source of regulation in India are:

a) The Companies Act 1956; and subsequent amendments,

b) The SEBI Act 1992; under (disclosure and investor protection) guidelines 2000, and

² D’ Sauza Dolphy. Indian Accounting Standards and GAAP snow white 2002 p 5
c) Accounting Standards formulated by ASB of ICAI.

Therefore, to study accounting and reporting practices of our country, the study of provisions of such regulations is very important. Again, to make any conclusions about suitability of any accounting and reporting practice in the present globalized environment, comparison of the relevant provisions with international provisions is also equally important. In this chapter, an attempt has been made to study the provisions of various rules issued by Companies Act 1956, Securities and Exchange Board of India Act 1992 and Accounting Standards issued by Accounting Standard Board of India for presentation of accounting information.

### 3.1 Provisions of Companies Act 1956

The Government of India issued Companies Act 1956 (subsequent amendments), under the Department of corporate Affairs by setting guidelines in different affairs of company, which the registered companies have to follow. The Act prescribes certain guidelines relating to preparation and presentation of annual accounts. Section 209 of the Act requires that, every company has to maintain proper books of accounts in the registered head office in respect of:-

(i) All sum of money received and expended by the company and the matters in respect of which receipt and expenditure take place.

(ii) All sales and purchase of the goods by the company.

(iii) All the assets and liabilities of the company and

(iv) In the case of a company, pertaining to any class of companies engaged in production, processing, manufacturing or mining activities, such particulars relating to utilization of materials or labour or to other items of costs as may be prescribed, if such
class of companies is required by the central government to include such particulars in the books of accounts.

Section 211 along with schedule VI of the Act deals with preparation and presentation of balance sheet and profit and loss account of a company. The section requires that every balance sheet and profit and loss account of a company shall give a 'true and fair' view of the state of affairs of the company at the end of financial year.

Schedule VI of part I, prescribes two alternative forms in which balance sheet should be prepared. One is horizontal forms and other is vertical forms. A company may follow any one of the forms and shall contain all the information as specified in the schedule.

The Act does not prescribe any format for profit and loss account. However, the profit and loss account should give true and fair view of the profit & loss for the financial year and should comply with the requirement of part II of schedule VI, so far they are applicable thereto.

As per Sub-Section 3(A) of Section 211 of the Act, every profit and loss account and balance sheet of the company should comply with accounting standards, issued by Institute of Chartered Accountant of India (ICAI) and prescribed by the central government. Where the profit and loss account and balance sheet of the company do not comply with accounting standards, such company should disclose in its profit and loss account and balance sheet about the :- (1) deviation from accounting standards (2) reasons for such deviations and (3) financial effect if any, arising due to such deviation.
Section 212 of the Act requires that if the company has any subsidiary company the following documents have to be attached in respect of such subsidiary company along with the balance sheet of holding company:–

(a) A copy of balance sheet of the subsidiary company,

(b) A copy of profit and loss account,

(c) A copy of report of the board of directors,

(d) A copy of reports of its auditors,

(e) A statement of holding company’s interest in the subsidiary companies as specified in Section 212(3) of the Act, and

(f) The reports referred to the Section 212(6) if any, concerning the inability of the board to obtain or inclusion of any specified information/documents.

Section 217(1) of the Act, requires that every balance sheet laid before annual general meeting should attached a report by its board of directors in respect of:

(i) The state of affairs of the company,

(ii) The amount if any, which it proposes to carry to any reserve in the balance sheet,

(iii) The amount, if any, which it recommends should be paid by way of dividend,

(iv) The material change and commitments if any, affecting the financial position of the company,

(v) Particulars in respect of employees whose remuneration in aggregate exceeds Rs 24,00,000 per annum, if employed for whole year and Rs 2,00,000 per month, if employed for a part of the financial year,

(vi) Directors responsibility statement as required by Section 217 of 2(AA) of the Act (as amended Act, 2000),
(vii) Particulars relating to research and development and technology absorption, adoption and innovation,
(viii) Disclosures in respect of employee stock option scheme, and
(ix) Details of conservation of energy, technology absorption, foreign exchange earnings and out go.

In addition to this, the Schedule XIV of the Act prescribes certain rates for charging depreciation on different assets. A company has to follow such prescribed rate of depreciation, however there is a provision for charging depreciation at higher rate than the minimum prescribed rate considering useful life of the assets.

Companies Act 1956, also makes provisions for statutory audit of annual accounts of the company by independent auditors. Under Section 227 (3) (b) of the Companies Act, it is requires that the auditor has to report “whether in his opinion, proper books of account as required by law have been kept by the company, so far as appears from his examination of those books and proper returns adequate for the purpose of his audit have been received from branches not visited by him”\(^3\). The Sub-Section (d) of above section also requires to report “whether in his opinion, “the profit and loss account and balance sheet have complied with the accounting standards referred to in sub-section (3C) of section 211”\(^4\). By this report from statutory auditors Companies Act, tries to ensure the proper maintenance of books of accounts as mentioned in Sec 209 and compliance of accounting standards. In addition to the above, now auditor requires to report on some specific points as mentioned in \(\text{vCARO)} \text{ Companies}(\text{Auditors Report)} \text{ Order} 2003, \text{which was issued by the central}

\(^3\) Majumdar A.K. and Kapoor G.K. Company Law and practices, Taxmann 2004 p-940
\(^4\) Ebib p-941
Government replacing the former Manufacturing and Other Companies (Auditor’s Report) Order 1988. CARO, 2003 is applicable to all companies including foreign companies except (i) Banking companies, (ii) Insurance companies, (iii) Companies Licensed under Section 25 of companies Act, and (iv) Private companies having paid up capital and reserve not exceeding 50 lakhs. Thus by inclusion of CARO 2003, Department of Corporate Affairs made an effort to ensure fair presentation of state of affairs of company.

Thus, Companies Act 1956 provides a clear guideline for disclosure of quantitative information in the balance sheet as well as important information in the board of directors’ report. In addition to this, the Act ensures the compliance of accounting standard issued by Accounting Standard Board (ASB) of India for uniformity of accounting information.

3.2 Securities and Exchange Board of India (SEBI) Act 1992

The Government of India vested power to the Securities and Exchange Board of India (SEBI), a statutory body under Securities Exchange Board of India Act 1992, to protect the interest of the investors in securities, promotes the development of and regulates securities market in India. Under the Act SEBI is empowered to issue guidelines, circulars etc. from time to time to regulate the activities of all the players in the capital market with a view to ensure that all the players in the capital market do play their role properly and fairly. As a result, SEBI gives mandate for certain disclosures in the annual report of a listed company, such as cash flow statements, corporate governance reporting, consolidated financial statement etc. under Disclosure

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Securities Exchange Board of India (SEBI) issued guidelines for disclosure of such information in the annual report as listing requirement under clause 32 and 49 in (disclosure and investor protection) guidelines. Under clause 32, a listed company has to publish cash flow statement prepared in accordance with AS-3, ‘cash flow reporting’. The clause was amended (Notification SMDRP/ policy/ cir-44/01 dated August 31, 2001) and made some additional disclosure mandatory as listing agreement. As per such amendment, a company having subsidiary company is required to publish a consolidated financial statement duly audited by statutory auditor in addition to individual financial statement in their annual report and such statement have to be submitted in the stock exchange where securities were listed. Again, companies must have to disclose related party disclosure in their annual report as per accounting standard -18 ‘Related party disclosure’.

According to clause 49- VI of the listing agreement provides that, (Notification SMDRP/ policy/cir-10/2000 dated February 21, 2000) in the annual reports of company, there shall be a separate section in the name of report on corporate governance, where different information on governance of the company should be included. Such report should also include the non-compliance of any mandatory requirement of the clause with reasons thereof and the extent to which non-mandatory requirements have been adopted. As per the clause, such report should include following information:

1. A brief summary of company’s philosophy on code of corporate governance,
2. Board of Directors,
i) Composition and category of board of directors,

ii) Attendance of each director at board directors meetings and the last annual general meeting,

iii) Number of other boards or board committees in which he/she is the member or chairperson, and

iv) No of board meetings held, and date on which such meeting was held.

3. Audit committee.

i) Brief description of terms of reference,

ii) Composition, name of the members and Chairperson, and

iii) Meeting and attendance during the year.

4. Remuneration committee

i) Brief description of terms of reference,

ii) Composition, name of the members and Chairperson,

iii) Attendance during the year, and

iv) Details of remuneration to all the directors, as per format in main report.

5. Shareholders committee.

i) Name of non-executive director heading the committee,

ii) Name and designation of compliance officer,

iii) Number of shareholders' complaints received so far,

iv) Number not solved to the satisfaction of shareholders, and

v) Numbers of pending complaints.

6. General body meetings.

i) Location and time, where the last three AGMs held,

ii) Whether any special resolutions were passed in the previous 3 AGMs,
iii) Whether any special resolution was passed last year through postal ballot- details of voting pattern,

iv) Person who conducted the postal ballot exercise,

v) Whether any special resolution is proposed to be conducted through postal ballot, and

vi) Procedure for postal ballot.

7. Disclosures
i) Disclosure on materially significant related party transactions that may have potential conflict with the interest of company at large,

ii) Details of non-compliance by the company, penalties, strictures imposed on the company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years,

iii) Whistle Blower policy and affirmation that no personnel has been denied access to the audit committee, and

iv) Details of compliance with mandatory requirements and adoption of the non-mandatory requirements of this clause.

8. Means of communication:

i) Quarterly results,

ii) Newspaper wherein results are normally published,

iii) Any website, where displayed,

iv) Whether it also displays official news releases, and

v) The presentations made to institutional investors or to analysts.

9. General Shareholders information.

i) AGM: Date, time and venue,
ii) Financial year,

iii) Date of book closure,

iv) Dividend payment date,

v) Listing on stock exchange,

vi) Stock code,

vii) Market price data: High, Low during each month in last financial year,

viii) Performance in comparison to board based indices such as BSE sensex, CRISIL index etc.,

ix) Register and transfer Agents,

x) Share transfer system,

xi) Distribution of shareholding,

xii) Dematerialization of shares and liquidity,

xiii) Outstanding GDRs/ ADRs/ warrants or any convertible instruments, conversion date and likely impact on equity,

xiv) Plant locations, and

xv) Address for correspondence.

Thus, SEBI provides for inclusion of some information in annual report for the listed entities to ensure the minimum information requirement to protect the interest of the investors. Such information can increases confidence of present and prospective investors by increasing transparency of financial information that can help for healthy growth of capital market.

3.3 Accounting Standards:

Accounting standard is the standardized accounting rules developed by the recognized accounting professional body in different countries. In 1973, with the
objectives of improvement and harmonization of regulations, accounting standards and procedures relating to the presentation of financial statement, International Accounting Standard Committee (IASC) was set up at international level. The body is issuing International Accounting Standard as per changing demand of the environments. Such body is trying to develop a single set of high quality, understandable and enforceable global accounting standards for the participants of world's capital market and other users. In 2001, such committee was reconstructed and renamed as International Accounting Standard Board (IASB).

3.3.1 Accounting standards in India:

Considering the needs of high quality accounting information and harmonized diverse accounting practices, the council of the Institute of Chartered Accountant of India (ICAI) constituted the Accounting Standard Board (ASB) on 21st April 1977 with the objective to formulate Accounting Standards. From then the board is setting accounting standards for Indian business entity in conformity with International Accounting Standards (IASs) and according to need of the economic environment of the country. Accounting Standard Board (ASB) also issues guidance notes on the accounting standards and gives clarifications on the issue arising there form. So far, 29 accounting standards have been issued by the ASB. The following is the list of accounting standards issued by ASB.

1. AS-1 Disclosure of Accounting policies
2. AS-2 Valuation of Inventory
3. AS-3 Cash flow statements
4. AS-4 Contingencies and Events occurring after the balance sheet date
5. AS-5 Net profit or loss for the period, prior period items and changes in accounting Policies
6. AS-6 Depreciation Accounting
7. AS-7 Accounting for construction contracts
8. AS-8 Accounting for Research and Development
9. AS-9 Revenue Recognition
10. AS-10 Accounting for fixed assets.
11. AS-11 Accounting for the effects of foreign exchange rate
12. AS-12 Accounting for Government Grants
13. AS-13 Accounting for investments
14. AS-14 Accounting for Amalgamations
15. AS-15 Accounting for Retirement benefits
16. AS-16 Borrowing costs
17. AS-17 Segment reporting
18. AS-18 Related party disclosures
19. AS-19 Leases
20. AS-20 Earnings per shares
21. AS-21 Consolidated Financial Statements
22. AS-22 Accounting for taxes on Incomes
23. AS-23 Accounting for Investments in Associates in Consolidated Financial Statements
24. AS-24 Discontinuing Operations
25. AS-25 Interim Financial Reporting
26. AS-26 Intangible assets
27. AS-27 Financial Reporting of interest in Joint ventures
28. AS-28 Impairment of Assets
29. AS-29 Provisions, Contingent Liabilities and Contingent assets.

The 'ICAI not being a regulatory body cannot have its own mandate on accounting standards'. As a result, preparers of financial statement are not obliged to follow the mandatory standards. Moreover, 'SEBI and Companies Act later made it compulsory the implementation of accounting standards for the listed company and entire corporate sectors respectively'. The newly inserted clause 50 of the listing agreement made it mandatory for the companies listed in recognized stock exchange to comply with all the applicable accounting standards in the preparation and presentation of financial statement. Sub-section (3A) to section 211 of Companies (Amendment) Act 1999 made compliance of accounting standard mandatory. According to the section accounting standard means the standards of accounting recommended by the Institute of Chartered Accountant of India (ICAI) and prescribed by the central government in consultation with the National Advisory Committee on Accounting Standards (NACAS) constituted under section 210 A(1). The section 217(2AA) of the companies Act entrusted the responsibility of compliance of accounting standards on the board of directors. The section made it compulsory to include Directors Responsibility statement in the board of directors’ report indicating there in that - (a) the applicable accounting standard has been followed with proper explanation relating to material departure if any. (b) The directors had selected accounting policy and

6 D’Souza Dolphy Indian Accounting standard and GAAP. Snow white2002 p-11
7 Ebid p-12
applied them consistently and made judgment and estimates that are reasonable and prudent, to give true and fair view of state of affairs of the company. (c) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the act for safeguarding the assets and prevention and detection of frauds and other irregularities; and (d) the directors prepared the accounts according to going concern concept.

Thus, relevancy of accounting standards have been increased and played very important role in the preparation and presentation of accounting information.

From the above analysis of accounting regulatory framework and their rules, it is evident that statutory bodies as well as private bodies set some accounting rules for fair presentation of accounting information. Each body set rules with different objectives. The Department of Corporate Affairs gives a set of rules considering accounting measurement and disclosures issue. Such body mainly puts emphasis on true and fair presentation of accounting information. They put responsibility for showing fair view of accounting information mainly on board of directors.

Again, to increase the confidence of external users provision has been made for compulsory audit and disclosure of such audit report in the annual reports.

SEBI sets some other rules to the corporate entities having listed their securities in the stock exchange as a listing requirement. Such body prescribes a set information disclosure under (disclosure and investors protection) guidelines 2000. With such disclosure, SEBI is trying to protect the interest of investor and enhance transparency of accounting information to boost up confidence of investors for healthy growth of capital market.
The Accounting Standard Board (ASB) of the Institute of Chartered Accountant of India promulgated some accounting standard with the objectives to enhance the quality and uniformity of accounting information. Though such accounting rules are frame by different bodies with different objectives but each body try compliment the rules of other body.

3.4 Analysis of provisions of Indian Accounting Standards and its difference with International Accounting Standards:

To have a comparison and assess the quality of Indian accounting rules, a brief discussion on provisions of Indian Accounting Standards and its difference from International Accounting Standards has been made on the areas of accounting practices selected for the study. The following part is the discussions on the provisions of Indian Accounting Standards and its difference from International Accounting Standards.

3.4. a. Valuation of Inventory:

Accounting Standard Board (ASB) of India issued accounting standard on valuation of inventory on 1st June 1981. However, such standard was revised and the revised standard AS-2 ‘valuation of inventory’ was issued and made it mandatory in respect of all entities in respect of accounting period commencing on or after 1-4-99.

The standard apples to assets:-

(a) Held for sale in ordinary course of business,

(b) In the process of production for such sale, and

(c) In the form of materials or supplies to be consumed in the production process or rendering services.
The standard prescribes for the basis for valuation of inventory according to principle of conservatism, at lower of cost and net realizable value. The cost inventory includes costs of purchase, cost of conversion and other cost incurred in bringing the inventories to their present location and condition.

Cost of purchase consists of the purchase price including duties and taxes, freight inward and any other directly attributable cost associated with acquisition of such inventory. The rebates, taxes, and duties recoverable from taxing authorities should be deducted from such cost.

Cost of conversion includes cost directly related to production and systematic allocation of fixed and variable overhead. The fixed production overhead should be included in the cost of conversion taking into consideration the normal capacity of production and variable production overhead should be included to cost of conversion on the basis of actual production.

When the production process may result in more than one product i.e. joint products and by-products, the common process is to allocate such cost among joint products on a rational and consistent basis. In case of by-products, the by-products are measured at net realizable value and such value is deducted from the cost of the main product.

Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories into their present location and condition. Interest and other borrowing costs are usually considered as not relating to bring the inventories to their present location and condition, hence not included in the cost of inventories.
The cost of inventories of items, that are not ordinarily interchangeable and goods and services produced and segregated for specific project should be assigned by specific identification of their individual costs. For the other inventories, cost should be assigned by following either of two formulas:

a) First in first out (FIFO) or
b) Weighted average cost method.

The net realizable value (NRV) is the estimated selling price in the ordinary course of business less the cost to make such sale. The estimation of such net realizable value should base on the most reliable evidence available at the time of estimation. Such estimation should take into account the purpose for which the inventory is held.

The financial statements of an entity should disclose –

1. The accounting policies adopted in measuring the inventories including cost formula used,
2. The total carrying amount of inventory and its classification, and
3. Information about the carrying amounts held in different classification of inventories.

**International Accounting Standard board** (IASB) issued accounting standard on inventories IAS-2 (Revised) in 1993 applicable from accounting period commencing on or after 1st January 1995. Subsequent amendments were made in May 1999 and December 2000 and finally issued revised standard on 2003. AS -2 and IAS-2 have no any substantial difference. However, in IAS-2, there are certain areas, which are not covered by the provision of AS-2. The major differences between IAS-2 and AS-2 are as follows:
1. IAS provides for inclusion of borrowing cost to the cost of inventory having substantially long production cycle.

2. IAS includes provisions relating to cost of inventories of service provider. As per the provisions the cost of inventories of service provider includes the cost of labour and other cost of personnel directly engaged in providing services.

3. IAS requires more and elaborate disclosures. It requires additional disclosure in respect of amount of inventories carried at net realizable value, the amount of any reversal of any written down value that is recognized as income and the circumstances which leads to such write down and carrying amount of inventories pledged as security for liabilities.

Thus, international accounting standards (IAS-2) provide for more transparency of inventory policy and give some additional guidelines for specific situations. Moreover, the inclusion of such additional guidelines may make difference in financial results.

Provisions of Companies Act 1956:

In the Companies Act 1956, Part I of schedule VI classified inventories into (i) store and spares (ii) Loose tools (iii) stock in trade and (iv) work-in-progress.

Part I of schedule VI requires that, a business should state separately the mode of valuation of stock of spare parts, stock-in-trade and work-in-progress and the amount of raw materials separately where practicable. If in the opinion of the board of directors, any inventory does not have any value on realization on ordinary course of business at least equal amount at which they are stated, and the fact should mentioned. Para 3(ii) (a) of part I of schedule VI requires that a manufacturing company should disclose the opening and closing stock of goods produced giving break-up in respect of
each class of goods indicating quantities thereof. Para 3(ii) (b) of part I of schedule VI requires a trading company to disclose purchase, opening stock and closing stock giving break-up in respect of each class of goods traded by the company and indicating quantities thereof. However, section 211(3) of Companies Act 1956, empowers the central government to exempt any class of companies from compliance with the requirement of schedule VI. Central government may also modify the requirement of schedule VI on application or with the consent of board of directors of the company sec 211 (4).

3.4. b. Depreciation Accounting:

Depreciation is a measure of wearing out, consumption or other loss of value of a fixed assets arising from use, effluxion of time and obsolescence of technology and market change. It is the allocation of the depreciable amount of assets over the useful life of assets. The amount of depreciation in any accounting period can affect the operating results of the entity as well as financial position. Therefore, accounting for depreciation is very important area in financial accounting.

The Indian Accounting Standard Board (ASB) issued AS-6 'depreciation accounting' and makes it mandatory for all entities from the accounting periods commencing on or after April 1, 1995. The standard applies to all depreciable assets. According to Para 3.2 of AS-6, depreciable assets are the assets which:-
‘(i) Are expected to be used during more than one accounting period.
(ii) Have a limited useful life; and
(iii) Are held by an enterprise for use in production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in ordinary course of business.  

The standard stipulates that the depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period over the useful life of the assets. The depreciable amount is the historical cost or other amount substituting the historical cost in the financial statement less estimated residual value. Historical cost of the assets represents its money outlays, or its equivalent in connection with acquisition, installation and commissioning as well as any improvement or additions thereof. Historical cost of depreciable asset may change as a result of increase or decrease in the long-term liability on account of exchange fluctuations, price adjustments, changes in duties or similar factors. In such situation, revalued amount substitutes historical cost and depreciation should be charged on revalued value.

Any addition or extension that becomes integral part of the existing assets should be depreciated over the remaining useful life of the assets at the rate applicable to existing asset.

The useful life of depreciable assets is the period over which assets are expected to be used by the enterprise. The useful life may be shorter than its physical and economic life. Useful life of a depreciable asset is a matter of estimation, which is based on various factors including experience. Useful life is determined by – 
i) Legal or contractual limits, 
ii) Extraction or consumption or use of the fixed assets,

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8 Compendium of accounting standards. The institute of chartered accountants of India 2003 p-95
iii) Physical wear and tear which depends on operational factors, repair and maintenance policy of the enterprise, and

iv) Technical and commercial obsolescence.

The estimated useful life of depreciable assets should be reviewed periodically. If there is a revision of estimated useful life, the unamortized depreciable amount should be charged over the revised remaining life of the assets.

If the residual value of an asset is significant, it should be estimated at the time of acquisition/installation, or subsequent revaluation of the fixed assets. Estimation of residual value should be made with reference to the realizable value of similar assets, which have reached the end of their useful life and have operated in similar conditions to those in which assets will be used. If such value is insignificant, it is normally considered as nil.

AS-6 does not prescribe any specific method for allocating depreciable amount over the useful life. Management may select the most appropriate method considering different factors. It only stipulates that the depreciation method selected, should be used consistently from period to period. A change from one method to another can be made only if, new method is required by a statute or accounting standard or if it is considered that such change would result in more appropriate presentation of financial statement. When there is a change in depreciation method, such change is considered as change in accounting policy. In the event of such change, the depreciation should be recomputed in accordance with new method from the date, that an asset is used. The deficiency or surplus on recomputation should be adjusted in the year in which the method of depreciation is changed.
Where depreciable assets are disposed of, discarded, demolished or destroyed, the net surplus or deficiency, if material should be disclosed separately.

The accounting standard specifies the following disclosures in the financial statements:

a) The historical cost and any other amount substituted for historical cost of each class of assets;

b) Total depreciation for the period for each class of assets; and

c) Related accumulated depreciation.

In addition of above the following information should be disclosed in the financial statement along with the disclosure of other accounting policies:

i) Depreciation method used; and

ii) Depreciation rate or useful life of the assets, if they are different from the principal rates specified in the statute governing the enterprise.

The Companies Act 1956 made some provisions for compulsory charging of depreciation and prescribed the rate of charging amount of depreciation. 'the Institute of Chartered Accountant of India has taken a view that an enterprise governing by companies Act 1956, should provide depreciation at an amount not lower than the amount determined in accordance with the methods and rates stipulated in the statute.'

Provisions of the companies Act 1956:

Part II of schedule VI of Companies Act requires disclosure of the amount provided for depreciation, renewals or diminution in the value of fixed assets, if such provisions are not made by means of depreciation charge, the method adopted for

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making such provisions should be disclosed. If no provision is made for depreciation, the fact should be disclosed along with amount of arrear depreciation.

Section 205 of the Act provides that dividend can be declared or paid by the company for any financial year out of profits of the company for that year, if profit is arrived at after providing for depreciation. It is necessary to provide for arrear depreciation if any, before declaration or payment of dividend. According to sec 205 of the Companies Act 1956, depreciation should be provided:

a) To the extent provided in section 350,

b) In respect of each item of depreciable fixed assets, such an amount, which is arrived at by dividing 95% of the original cost of such assets by estimated life period of such assets,

c) On any other basis approved by the central government which has the effect of writing off by way of depreciation, the 95% of the original cost of depreciable assets on the expiry of specified useful life, and

d) As regards depreciable assets, for which no rate of depreciation has been provided, depreciation will be provided on such basis as approved by the central government in official gazette notification.

Section 350 of the Companies Act 1956 made it clear that depreciation should be charged at the rate specified in schedule XIV. Schedule XIV provides rate of depreciation for different class of assets on both straight-line method and written down value method. It further provides such rate for single shift, double shift and triple shift of working. Where during the financial year any addition has been made to assets, depreciation thereon should be calculated on a proportionate basis from the date of such addition. Similarly, where a fixed asset has been sold, discarded, demolished or
destroyed during the financial year, depreciation should be calculated on pro-rata basis up to date on which assets sold, discarded or demolished. In case of fixed assets, whose actual cost does not exceed Rs 5000/- depreciation should be provided at a rate 100 percent. The rate that is specified in the schedule XIV is the minimum rate of depreciation. A company may charge higher rate based on estimated useful life as assessed by the management.

**International Accounting Standard:** International Accounting Standard Board issued IAS-16 'property, plant and equipment', and IAS-38 'intangible assets' relating to depreciation by suppressing previous standard IAS-4. The provisions of AS-6 are substantially same as the provisions of IAS-16. The major differences between IAS and AS are:

1. IAS provides for periodic review of depreciation method to reflect the expected change in economic benefit from such assets. In AS, there is no provision for periodic review of depreciation method it set out criteria as to when depreciation method should be changed.

2. In IAS, a change in depreciation method is treated as change in accounting estimates and accordingly such change should be reflected in current and the prospective period. However, in AS a change in depreciation method is treated as change in accounting policy, and such change is reflected by retrospectively computing depreciation from the date the assets being used. The deficiency or surplus due to retrospective calculation should be adjusted in the year of such change.

**3.4. c. Revenue Recognition:**

Revenue is the gross inflow of cash, receivable or other consideration arising in the course of ordinary business activities of an entity like sale of goods, the rendering
of services, and from the use of entity's resources by others yielding interest, dividend, and royalties. Revenue recognition is mainly concerned with the timing of recognition. According to matching principle, all cost should match with revenue of a specific period to ascertain operating results. In business, there are some situations where revenue arise but may not be taken into account due to uncertainty. Therefore, some clear guidelines are required regarding recognition of revenue into account to have a uniformity of accounting results.

Accounting Standard Board (ASB) of India issued AS-9 'Revenue recognition' prescribing different provisions of revenue recognition. The statement is concerned with revenue arising in course of ordinary activities of the enterprise from:

i) The sales of goods,

ii) The rendering of services, and

iii) The use by others enterprise resources, yielding interest, dividend and royalties.

The standard excludes the revenue like (i) revenue arising out of construction contracts (ii) revenue arising out of hire purchase, lease agreements (iii) revenue arising from government grant and similar other subsidies (iv) revenue of insurance company arising from insurance contract.

The revenue recognition principle is mainly concerned with the timing of revenue recognition in the statement of profit and loss account of an enterprise. The amount of revenue arising on a transaction is usually determined by the agreement between parties involved in the transaction. When uncertainty exists regarding the determination of amount or its associated costs, these uncertainties may influence the timing of revenue recognition.
In case of sale of goods, the revenue of such transaction should be recognized when seller has transferred the goods to the buyer for a consideration. Sale is considered as performed if,

i) The seller of goods has transferred the property in the goods to the buyer for a price and all significant risk and rewards of the ownership have been transferred to the buyer and the seller retains no effective control of the goods, transferred to a degree usually associated with the ownership.

ii) No significant uncertainty exists regarding the amount of consideration that will be derived from the sale of the goods.

In case of transaction involving the rendering of services, revenue should be recognized considering the service being performed. Performance may measure either by proportionate completion method or by the completed service contract method.

Proportionate completion method should be applied when performance consists of the execution of more than one act. Under this method, revenue should be recognized proportionately to the performance of each act. Proportion of performance is determined on the basis of contract value, associated costs, number of act or other some suitable basis. Under completed contract method, revenue should be recognized when performance is completed. However, completed contract method of accounting for construction contracts (AS-7) has been withdrawn with respect of contract entered during accounting periods that commenced on or after April 1, 2003. Now, it is preferable to use percentage of completion method. The performance of such service being regarded achieved, when no significant uncertainty exists regarding the amount of consideration that will be derived from rendering the service.
Revenue arising from the use by others of enterprise resources yielding interest, royalties and dividend should be recognized, when there is no significant uncertainty as to measurability and collectability. This revenue should be recognized as follows:

1. Royalties should be recognized on accrual basis in accordance with the terms of relevant agreement.

2. Interest income should be recognized on a time proportion basis taking into account the amount outstanding and rate applicable.

3. Dividends from investment in shares should be recognized when owner’s right to receive the payment is established.

According to the standard, an enterprise should have to disclose the circumstances, if any recognition of revenue is postponed, pending stating the significant uncertainties.

**International Accounting Standard:** International Accounting Standard Board (IASB) issued IAS -18 ‘Revenue’ prescribing rules for recognition of revenue in 1993. The major areas of difference between IAS and AS are:

1. Under IAS -18, the various amounts such as sales tax, goods and services taxes and value added taxes, which were collected on behalf of third parties, are excluded from revenue. Under AS trade discount and rebate are also excluded. However, it was silent regarding taxes and duties. As a result, some enterprise included excise duty, sales tax etc. with revenue and shown corresponding as cost.

2. IAS-18, requires that revenue should be measured at fair value of consideration received and receivable. Though, in Indian context, provision of fair value is implied but it was not clearly set in its main standard.
3. Under IAS when goods and services are exchanged or swapped for goods or services, which are of a similar nature and value of the exchange, is not regarded as transactions, which generates revenue. However, when goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as transactions, which generates revenue. The revenue is measured at fair value of the goods and services. AS-9 was silent about such revenue swaps.

3.4. d. Accounting for Fixed Assets:

Fixed assets often comprise a significant portion of total assets of an enterprise. Therefore, it is important to account properly to reflect true and fair view of financial position of the enterprise.

Indian Accounting Standard Board (ASB) issued accounting standard AS-10 'accounting for fixed assets' relating to accounting for fixed assets and made it mandatory for all the enterprise from 1st April 1991. The standard being applied to the assets held by business with the intention to use for the purpose of producing or providing goods or services and held for sale in normal course of business. However, standard does not applies for accounting of following assets to which special conditions apply:

i) Forests, plantations and similar re-generative natural resources,

ii) Wasting assets including mineral rights, expenditure on exploration for and extraction of minerals, oils, natural gas and similar other non-regenerative resources.

iii) Expenditure on real estate development, and

iv) Live-stocks.
According to AS-10 fixed assets is an asset held by an enterprise with the intention of being used for the purpose of producing or providing goods or services and not held for sale in normal course of business. As in the definition, no specific criterion is prescribed for identification of fixed assets, an enterprise should classify the fixed assets by applying judgment and considering the nature of business. An enterprise may decide to expense, which could otherwise have been included in fixed assets, considering its material effects and nature of business.

Standard provides that the cost fixed assets should comprise its purchase price and any other directly attributable expenses bringing assets to its working condition for its intended use. The cost of self-constructed assets should comprise those costs that are directly related to the specific assets. Administrative and other general overhead are usually excluded form the cost of fixed assets. However, financing costs relating to deferred credits or borrowed funds attributable to construction or acquisition of fixed assets up to the period of completion of construction or acquisition of fixed assets are usually included to the cost.

When fixed assets is acquired in exchange or part of exchange for another assets, the cost of assets should be recorded either fair market value or at the net book value of the assets given up.

Any subsequent expenditure related to fixed assets should be added to its book value only if, such expenditure increases the future benefit from the existing assets. The addition or extension to an existing asset, which is capital in nature and integral part of the existing assets, should be added to its gross value. Fixed assets should be eliminated from financial statements on disposal or when no further benefit is expected
from its use and disposal. Any profit/loss arising on disposal and retirement of such assets should be recognized in profit and loss statement.

Initially fixed assets should be recognized and carried at its historical cost less accumulated depreciation and any accumulated impairment losses. Subsequent revaluation is permitted. Fixed assets may be revalued but when revaluation is made, the entire class of assets should be revalued and revaluation should not result in the net value greater than the recoverable amount of those assets. Any increase in the net book value arising from revaluation of fixed assets should be directly credited under revaluation reserve. However, any decrease in net book value due to revaluation of fixed assets should be charged to profit and loss account.

Fixed assets acquired on hire purchase basis should be recorded at cash price. But in the balance sheet there must be appropriate narration to indicate that the enterprise does not have full ownership of such assets.

Goodwill should be recorded in the book value only when some consideration of money or money's worth has been paid for it or when excess purchase price paid over the net value of the assets acquired and excess is considered as goodwill.

The financial statement of an enterprise should disclose the following information in addition to disclosure required as per AS-1,

1. Gross book value and net book value of fixed assets at the beginning and at the end of each accounting period, showing additions, disposals, acquisitions and other movements.

2. Expenditure incurred on account of fixed assets in course of construction or acquisition; and
3. Revalued amount, substituted for historical cost of fixed assets. The method adopted to compute the revalued amount, the nature of indices used, the year of any appraisal made, and whether external valuer involved, where fixed assets are stated at revalued amount.

**International Accounting Standard:** For measurement and recognition of fixed assets, International Accounting Standard Board (IASB) issued IAS-16 ‘property, plant and equipment’. The provisions AS is in conformity of IAS regarding fixed accounting except the followings:

i) IAS-16 stipulates that after initial recognition of assets revaluation should be made with sufficient regularity to ensure that assets should be carried at fair value. However, AS-10 state that after initial recognition assets should be carried either at cost or at revalued value.

ii) Capitalization of borrowing cost is not allowed as benchmark treatment. In International Accounting standards (IAS) capitalization of borrowing cost is allowed as an alternative treatment. However, as per Indian Accounting Standards (AS) borrowing cost used to construct or purchase the fixed assets is capitalized upto the date assets is ready for its intended use.

### 3.4. e. Accounting for Intangibles:

The emerging growth of service sector and information and technology related business had made accounting for intangible very significant. Recognizing needs for uniform accounting of intangible, Accounting Standard Board (ASB) of India issued AS-26 ‘intangible assets’. The standard was made mandatory from the accounting year commencing on or after 1-4-2003 for the enterprise whose debts and equity are listed
on recognized stock exchange in India, and enterprise that are in the process of issuing debts and equity, that will be listed on a recognized stock exchange in India and other commercial, industrial and business enterprise, whose turnover exceeds Rs 50 crores. For all other enterprise, the standard becomes mandatory from the accounting year commencing on or after 1-4-2004. It prescribes the recognition of intangibles and measurement of the carrying amount of such assets as well as disclosure of certain information on such assets. According to AS-26 ‘an intangible assets is an identifiable non-monetary assets without physical substance, held for use in production or supply of goods or services, for rental to others or for administrative purposes.’ An enterprise should recognize an intangible assets if,

(a) It is probable that future economic benefits will flow to the enterprise from that asset,

(b) The cost of such assets are reliably measured, and

(c) The enterprise has control over such assets.

Such assets should be initially measured at cost. The cost of intangible assets should comprise its purchase price, including import duties and other taxes (other than those subsequently recoverable) and any expenditure directly attributable to make the assets ready for its intended use. Intangible asset acquired in exchange of share or other securities in the enterprise should be recorded at its fair value, or the fair market value of the securities issued, whichever is more clearly evident. If such asset is acquired in exchange or part exchange of other assets, the cost should be determined either at fair market value or at the net book value of the assets given up. Intangible

10 Compendium of Accounting Standards. The Institute of Chartered Accountants of India. 2003 p-436.
assets acquired free of charge or for nominal consideration by way of a government grants should be recognized at a nominal value or at the cost of acquisition. However, any expenditure that is directly attributable for making such assets ready its intended use should be included in the cost of such assets. Intangible assets acquired as a part of an amalgamation should be recognized at their existing carrying amount in the books of the transferer, if such amalgamation is accounted as per pooling interest method by the transfer. On the other hand, if transferee accounted such amalgamation under purchase method the cost of intangible asset should recognized at its fair value, which can be measured with sufficient reliability. If fair value of such assets cannot be measured reliably due to absence of active market the cost of an intangible measured at an amount that does not create or increase any capital reserve arising at the date of amalgamation.

If any subsequent expenditure is incurred on intangible assets, such expenditure should be added to the cost of intangible assets provided such expenditure is attributable to intangible assets specifically and it would generate future economic benefit in excess of its original assessment.

Goodwill is not considered as an intangible asset if it does not arise out of consideration paid. Similarly, brands, mastheads, publishing titles, customer lists are not recognized as intangibles as no consideration is paid for it.

In case of research and development expenditure, no intangible arises out of research phase but in the development phase, it should be recognized as intangible assets provided it is able to satisfy the basic condition i.e. generation of future economic benefit, identifiably, and control.
After initial recognition, such assets should be carried at its cost less any accumulated amortization and any accumulated impairment loss.

The cost of intangible assets should be allocated over the useful life of the assets on a systematic basis. There is a rebuttable assumption that useful life of an intangible assets should not be exceed ten years from the date when the assets is available for use. Unless, otherwise justified, an intangible asset should be amortized over a period not exceeding ten years. In some cases, if there is persuasive evidence that the useful life is longer than the specified in the standard an entity may amortize such intangible assets in a longer period than the specified limit. However, an entity should be prudent in estimating the useful life of an intangible because of its variation in useful life due to rapid change of technology and the business environment.

The cost should amortize over the estimated useful life. The amortization method should be used to reflect the pattern of economic benefit that is consumed by the enterprise. If the pattern of economic benefit cannot be, determined reliably, the straight-line method should be used. The amortization period and amortization method used should be reviewed at least in each financial year. If the expected useful life is significantly different from the previous one, the amortization period should be changed accordingly. Again, if the expected pattern of benefits is changed from the previous expectation, the amortization method should be changed accordingly.

In AS 28, ‘Impairment of assets’ it is stipulates that an enterprise should assess at each balance sheet date whether there is any indication that assets may be impaired. If there is such indication, the entity should estimate the recoverable amount of the assets. Therefore, enterprise should assess the indications of impairment of the value of intangibles in each balance sheet date.
In addition to the above requirement of Accounting Standard, an enterprise should estimate the recoverable amount of the following assets at least in each financial year, even if there is no indication that assets is impaired:

a) An intangible assets that is not yet available for use; and

b) An intangible assets that is amortized over a period exceeding ten years from the date of assets available for use.

When no future economic benefits are expected from its use and its subsequent disposal, such assets should be eliminated from balance sheet. Any gain or loss arising from retirement and disposal of an intangible asset should be recognized as income or expenses in the statement of profit and loss.

The financial statement of an enterprise should disclose the followings, for each class of intangible assets.

(a) The useful life or amortization rates used,

(b) The amortization method used,

(c) The gross carrying amount and accumulated amortization at the beginning and at the end of the periods, and

(d) A reconciliation of the carrying amount at the beginning and end of period showing:

(i) Additions, internal development and development through amalgamation,

(ii) Retirements and disposals,

(iii) Impairment loss recognized in the statement of profit and loss during the period (if any),

(iv) Impairment losses reversed in the statement of profit and loss during the period (if any),
(v) Amortization recognized during the period, and

(vi) Other changes in the carrying amount during the period.

**International Accounting Standard:** IASB issued IAS-38 'intangible assets' on 1998 for recognition and measurement of intangible assets. The major areas of difference between IAS and AS are:

(i) IAS provides revaluation of intangibles as an alternative treatment. However, AS does not permit revaluation of intangible assets.

(ii) IAS -38 generally requires that intangible assets be amortized over its useful life generally within 20 years from the date of use. The corresponding period is 10 years under AS-26.

**3. 4.f. Segment Reporting:**

With the increase in competition in the business world, corporate bodies used to develop multi-product line and spread their business across geographical boundary of the country. The difference in product and services needs different raw materials, different process and method of distribution and face different regulatory environment. As a result, the rate of profitability, growth opportunities and risk and return may be different. Similarly, in case of operation in different geographical location business faces different economic and political environment, different currency and exchange control regulation, which lead to difference in risk and return in different markets. Thus, single financial statement though provides the degree of risk and return as a whole but it fails to provide degree of risk and return in micro level, which is very important for the management as well as external users to make strategic decisions. So disaggregated information becomes more significant to forecast about business.
Considering needs of reporting segment wise information, Indian Accounting Standard Board issued accounting standard AS-17 ‘segment reporting’ and made it mandatory to all enterprises whose equity and debts are listed in recognized stock exchange in India and enterprises whose annual turnover exceeds Rs 50 crores in any accounting period, from accounting period commencing on or after 1-4-2001.

In AS-17, for reporting activities of a business is classified as business segment and geographical segments. ‘A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product and services and this is subject to risk and returns that are different from those of the other business segments.’\(^\text{11}\) The business segments should be identified considering:-

i) The nature of product and services,

ii) The nature of production processes,

iii) The types or class of customers for products or services,

iv) The methods of distribution of products or services, and

v) The nature of regulatory environment.

Again, ‘a geographical segment is a distinguishable components of an enterprise that is engaged in providing products and services within a particular economic environment and that is subject to risk and return that is different from those components operating in other economic environments.’\(^\text{12}\) The factors that should be considered in identifying geographical segments are:-

i) Similarity of economic and political conditions,

ii) Relationship between operations in different geographical areas,

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\(^{11}\) Compendium of Accounting Standards. The Institute of Chartered Accountants of India. 2003. p-254.

\(^{12}\) EBIT ----- p-254.
iii) Proximity of operations,
iv) Special risk associated with operations in a particular area,
v) Exchange control regulation, and
vi) The underlying currency risks.

On the basis of above, a business or geographic segment should be identified as a reportable segment, if
a) The segment assets are 10% or more of the total assets of all segments.
b) The revenue from sales to the external customer and transaction with other segment is 10% or more of total revenue of all segments.
c) The segments results whether profit or loss is 10% or more of the combined results of all segments profit or loss.

A business segment or a geographical segment which is not a reportable segment as per above, may be designated as a reportable segment despite its size at the discretion of the management of enterprise. If that segment is not designated as a reportable segment, it should be included as an unallocated reconciling item.

If total external revenue attributable to reportable segments constitutes less than 75% of the enterprise revenue, additional segments should be identified as a reportable segment even if they do not meet the 10% threshold limit as mentioned in above, until at least 75% of revenue is included in reportable segments.

A segment identified as a reportable segment in the immediately proceeding period as it satisfied the relevant 10% thresholds, should be continued to be reportable segment for the current period even that its revenue, results and assets all no longer meet the 10% thresholds. If a segment identified as a reportable segment in the current
period, because it satisfied relevant 10% thresholds, the proceeding period’s data should be presented for comparative purpose, unless it is impracticable to do so. Segment information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statement of the enterprise as a whole.

**Identification of reporting format:** Considering the dominant source and nature of risk and return an enterprise will decide whether its primary reporting segment would be business segments or geographic segments. If the risk and return of an enterprise are affected predominantly by difference in the product and services etc. produced by enterprise, the primary format for reporting segment information should be business segment and secondary segment should be geographic segment. On the other hand, if the risk and return of the enterprise are affected predominantly by the fact that the entity operates in different locations, its primary format for reporting segment information should be geographical segment and vice versa. The organizational and management structure of an enterprise and its internal reporting system normally provide the best evidence of predominant source of risk and return of the enterprise for segment reporting.

If risks and returns of an enterprise are strongly affected both by the difference in the products and services and by difference in geographical areas in which operates and entity use the ‘matrix approach’ for internal reporting, then entity should use primary format for reporting information for business segment. However, standard does not prohibit a matrix presentation. Again if internal financial reporting is based neither on the products and on services the entity offers nor on the geographical areas in which it operates, the management should determine whether differences in the
products and services it offers or the fact that it operates in different geographical areas predominantly affect the risks and returns. Accordingly, it should consider the business segments or geographical segments as primary format, with the other as its secondary reporting format.

**Segment accounting policy:** An enterprise should follow accounting policy for preparing and presenting segment information in conformity with accounting polices adopted for preparation and presentation of financial statement as a whole. Assets and liabilities that are related jointly to two or more segments should be allocated to segments, if their revenue and expenses are also allocated to those segments.

As per accounting standard, an enterprise should disclosed the following information for each primary reportable segment:

i) Segment revenue, classified into segment revenue from sales to external customer, and inter-segment revenue,

ii) Segment results,

iii) Total carrying amount of segment assets,

iv) Total amount of segment liabilities,

v) Total cost incurred during the period to acquire segment assets that are expected to use during more than one accounting period,

vi) Total amount of expenses included in segment results for depreciation and amortization during the accounting period in respect of segment assets, and

vii) Total amount of significant non-cash expenses, other than depreciation and amortization in respect of segment assets that were included in segment expenses and therefore deducted in measuring segment results.

The standard does not require but encourages following disclosures:
a) Segment profit / loss, or some other measures of segment profitability other than segment result, without arbitrary allocation.
b) Segment cash flow with information regarding operating, investing and financing cash flow.

If an enterprise discloses any measures of profitability other than segment results on a basis other than the accounting policy adopted for financial statements of the enterprise, a clear description of the basis of measurement should be provided. Similarly, if cash flow arising from operating, investing and financing activities of segments is reported, it needs not to disclose depreciation and amortization expenses and non-cash expenses.

An enterprise should present a reconciliation statement reconciling:

a) Segment revenue to enterprise revenue,
b) Segment results to enterprise profit & loss,
c) Segment assets to enterprise assets, and
d) Segment liabilities to enterprise liabilities.

If an enterprise uses primary reporting format for reporting information to business segments, it should also report following information:

a) Segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customer is 10% or more of enterprise revenue;
b) The total carrying amount of segment assets by geographical location of assets for each geographical segment whose segment assets are 10% or more of the total assets of all geographical segments; and
c) Capital expenditure on acquisition of fixed assets by geographical location of assets, for each geographical segment whose segment assets are 10% or more of the total assets of all geographical segments;

If an enterprise uses the primary reporting format for disclosing information is geographical segment, it should also report the following segment information for each business segment whose revenue from sales to external customers is 10% or more of the enterprise revenue or whose segment assets are 10% or more of the total assets of all business segments:

a) The segment revenue from external customers;
b) The total carrying amount of segment assets; and
c) The total capital expenditure.

If an enterprise uses the primary reporting format for disclosing information related to geographical segment that is based on location of assets and it is different from the location of its customers, then enterprise should also report revenue from sales to external customers for each customer based geographical segment whose revenue from sales to external customer is 10% or more of enterprise revenue.

Again, if primary reporting format is geographical segments that are based on location of customers, and if the assets of the enterprise is located in different geographical areas from its customer then enterprise should also report the following information for each asset-base geographical segment, whose revenue from external customers or segments assets is 10% or more of total enterprise sales:

a) The total carrying amount of assets by geographical location of the assets; and
b) The total capital expenditure incurred during the period by location of the assets.
In addition to the above, an entity should disclose

a) The basis of pricing for inter-segment transfer and any changes therein.

b) Changes in accounting policies adopted for segment reporting that have a material effect on segment information, with a description of the nature of change, and financial effect of the change if it can determined reasonably.

c) The types of product and services included in each reported business segment, and the composition of each reported geographical segment, both primary and secondary, if not otherwise disclosed in financial statements.

International Accounting Standard: International Accounting Standard Board issued guidelines in respect of segment reporting by issuing IAS-14 ‘segment reporting’ (revised) in 1997. The major areas of difference between IAS and AS are:

1. IAS is mandatory only to the enterprises whose debts and equity were listed in public securities market but AS is mandatory in addition to this, to economically significant entities also whose annual turn over is more than Rs 50 crores.

2. Under IAS, there is a provision for combination reportable segment with one or more internally related segments that are below the threshold limit. In AS there is no provision for combining segments.

From the analysis of provisions of Indian Accounting Standard and its difference from International Accounting Standards, it has been found that Indian Accounting Standards are almost similar with International Accounting Standards. However, some differences have been noticed in some standards on measurement and disclosures aspects. Such differences are due to difference in economic environment, legal environment, difference in customs and traditions and to some extent to maintain identity of standard setting body. Although, the differences are very insignificant but
such differences in the provisions of measurement aspects of accounting information may create the difference in financial results. Table 3.1 is prepared to show tentative accounting effects in accounting results prepared by complying Indian Accounting Standards, due measurement difference from International Accounting Standards.

Table: 3.1

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<thead>
<tr>
<th>Types of difference from IAS</th>
<th>Tentative accounting effects</th>
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<tbody>
<tr>
<td><strong>1. Valuation of inventory</strong></td>
<td>i. Under valuation of total assets and under statement of profit.</td>
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<tr>
<td>i. Non-inclusion of borrowing cost with inventory having substantially long production cycle.</td>
<td>ii. Under valuation of total assets and undervaluation of profit</td>
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<tr>
<td>ii. Not having provisions relating to cost of inventories of service provider</td>
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<tr>
<td><strong>2. Depreciation</strong></td>
<td>i. Under or over statement of the operating results in the year of such change.</td>
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<tr>
<td>i) Change of depreciation method</td>
<td>ii) Over statement of profit and over valuation of fixed assets.</td>
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<tr>
<td><strong>3. Fixed assets</strong></td>
<td>i) No actual valuation of fixed assets and either under valuation of shareholder equity or over valuation of profit.</td>
</tr>
<tr>
<td>i) Inclusion of borrowing cost during the period assets become ready for use.</td>
<td>ii) No actual valuation of intangible assets and either under valuation of shareholder equity or over valuation of profit.</td>
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<tr>
<td>ii) Non-use of revaluation in sufficient regularity</td>
<td>ii) Under statement of profit and under statement of total assets</td>
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<td><strong>4. Intangible assets</strong></td>
<td></td>
</tr>
<tr>
<td>i) No provision for revaluation</td>
<td></td>
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<tr>
<td>ii) Having less amortized period</td>
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</table>

Thus, the difference in provisions of Indian Accounting Standards and International Accounting Standards can make difference in accounting results. As a result, uniformity in true sense becomes impossible due to such difference.
Again, statutory bodies of the country also play a very important role on some accounting and reporting issue, example of such is the depreciation accounting, where Companies Act 1956, provides depreciation methods and depreciation rate for companies. However, both International Accounting Standards and Indian Accounting Standards does not provide for any minimum rate and depreciation method. As a result, Indian corporate entities have to follow the rules given under Companies Act but other than Indian entities that follows IAS (now IFRSs) free to choose any method and any rate as per discretion of management. So due to difference in accounting rules there is lots of scope for difference in accounting reporting practices.

In the next chapter, existing accounting and reporting practices of corporate entities in India are studied to get insight about compliance of Indian GAAP and changes in accounting and reporting practices during the study period.

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