CHAPTER-III

FINANCIAL DISCLOSURE PRONOUNCEMENTS IN INDIA: A SYNOPTIC VIEW OF COVERAGE

Introduction:

In India relative strength of PSUs is quite phenomenal and has been constantly on the increase. From being mere half dozen in 1951, the number of PSUs grew to 200 in early 2000. Similarly, the relative share of PSUs in the total capital of all enterprises increased from a mere 39 percent in 1965 to approximately 80 percent in 2000.

Most of the PSUs in India are incorporated under the provisions of Companies Act. Apparently, there is no difference between the PSU and private sector enterprises with respect to their preparation and presentation of accounts in compliance with statutory provisions.

Provisions of sections 209 to 233B of the Companies Act, 1956, equally applicable to Public sector accounting as they are in respect of the companies in private sectors. And mandatory accounting standards issued by ICAI are also equally applicable to PSUs and private sectors. But PSUs have to work under the supervision and control of some regulatory agencies like Bureau of Public Enterprises (BPE), Committee of Public Undertakings (CPU), Comptroller and Auditor General of India (C&AG), SEBI guidelines in India. PSUs in India thus, have to comply with various rules and guidelines issued by BPE and such other Governmental agencies over and above what is prescribed by the companies Act. Therefore, here an attempt has been made to know the financial disclosure pronouncements for public sector undertakings in India.

Disclosure Pronouncements by the Companies Act, 1956:

In India, to safeguard interests of investors and general public and to transform the corporate entity into socio-economic unit, the Companies Act,
1956 deals with financial reporting and disclosure practices of corporate entities. Each PSU should bind with the legal provisions of Companies Act, 1956 in relation to disclosure practices. Provisions of section 209 to 233B of the Act deal with the accounts and audit of companies working under the purview of the Company Law in India.

Section 211 of the Act under Schedule VI, Part I and Part II give the format of reporting to the shareholders' credits through two important financial statements viz. the Balance Sheet and the Profit and Loss Account.

Section 211 of the Companies Act, 1956 requires every balance sheet to give a true and fair view of the state of the company's affairs as at the end of its financial year and that may be in the Horizontal or Vertical form.

Requirements relating to the Balance sheet as per Part-I:

- Two columns for the figures as at the end of the previous and current period.

- In stating the capital, the following details are to be provided;
  (a) Terms of redemption of the redeemable preference shares and
  (b) Particulars of any option of unissued share capital to be specified.

- In stating reserve the following details are to be provided;
  (a) Capital reserve not available for dividend
  (b) Capital redemption reserve
  (c) Other reserve from which loss is to be deducted
  (d) Any other fund created out of net profit
  (e) Surplus of profit and loss account and appropriation account after deduction of contribution and dividend
  (f) Proposed additions to reserves
  (g) Liability reserves
(h) Sinking fund and

(i) Pension Insurance or Provident fund any addition or deduction since last Balance sheet is to be shown.

- In stating liabilities, two broad categories of secured and unsecured to be stated. Under secured liabilities the nature of security in each class is to be stated and to be subdivided as follows:

(a) Debentures

(b) Loans and advances from banks

(c) Loan and advances from subsidiary company

(d) Other loans and advances under the category of unsecured liability. The subdivision of which is to be as follows:

(i) Fixed deposits

(ii) Loans and advances from subsidiaries

(iii) Short term loan and advances from banks and others.

- Current liabilities and provisions should be stated in the following way

(a) Acceptances

(b) Sundry creditors

(c) Interest accrued or accruing on secured loans

(d) Interest accrued or accruing on unsecured loans

(e) Provision for taxation

(f) Provision for contingencies

(g) Proposed dividends

(h) Advance payment and unexpired discounts or Income

(i) Unclaimed dividends
(j) Other liability if any, and contingent liabilities for
    (1) Claims against the company not accepted
    (2) Uncalled liability on partly called shares held

• Contingent Liabilities for
    (a) Arrears of fixed cumulative dividend stating the period of arrears and
    (b) Other money-stating if the company guarantees for any director or
        Officer of the company.

• Fixed Assets showing original cost additions depreciation since
  commencement of the period and depreciation for the period should be
  clearly distinguished and stated,
    (a) Goodwill
    (b) Land
    (c) Building
    (d) Leasehold
    (e) Railway sidings
    (f) Plant and machinery
    (g) Furniture and fittings
    (h) Patents, trademarks and designs
    (i) Livestock
    (j) Vehicles etc

    In case of sale, the original cost or written down value should be
deducted.

• Investments showing the nature of the investments, aggregate amount of
  quoted and unquoted securities and interest accrued on investment to be
  shown.
• Current assets showing,
  
  (a) Stores and Spare parts
  
  (b) Loose tools
  
  (c) Stock in trade distinguishing raw materials where possible and stating the mode of valuation
  
  (d) Work in process stating the mode of valuation
  
  (e) Sundry debtors showing only debts within 3 months of the date of the balance sheet, other to be included amongst loans and advances.

• Loans and advances showing the debtors and particulars as in the case of debtors. The following categories are to be shown,
  
  (a) Bills of exchange
  
  (b) Advances recoverable in cash or kind or value to be received.

• Cash and bank balances showing balances in bank current account, deposit account or call account

• Miscellaneous Expenditure and loss to the extent not written off detailing
  
  (a) Preliminary expenses,
  
  (b) Commission and brokerage,
  
  (c) Discount on shares, and
  
  (d) Debit balance of profit and loss account not written off against reserve are shown.

• Short-term loan will be written off within one-year duration.
HORIZONTAL FORM OF BALANCE SHEET

Schedule VI Part I
(According to Section 211)
Horizontal form of Balance Sheet
Balance Sheet of ....................... as on 31-03

<table>
<thead>
<tr>
<th>Figures For Previous Year</th>
<th>Liabilities</th>
<th>Figures For Current Year</th>
<th>Assets</th>
<th>Figures For Current Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Capital</td>
<td>XXX</td>
<td>XXX</td>
<td>Fixed Assets</td>
<td></td>
</tr>
<tr>
<td>Authorised Capital</td>
<td>XXX</td>
<td>XXX</td>
<td>Goodwill</td>
<td>XXX</td>
</tr>
<tr>
<td>(Shares of Rs...each)</td>
<td></td>
<td></td>
<td>Land</td>
<td>XXX</td>
</tr>
<tr>
<td>Issued capital</td>
<td>XXX</td>
<td>XXX</td>
<td>Buildings</td>
<td>XXX</td>
</tr>
<tr>
<td>(Shares of Rs...each)</td>
<td></td>
<td></td>
<td>Leaseholds</td>
<td>XXX</td>
</tr>
<tr>
<td>Subscribed capital</td>
<td>XXX</td>
<td>XXX</td>
<td>Railway sidings</td>
<td>XXX</td>
</tr>
<tr>
<td>Less: Calls unpaid</td>
<td></td>
<td></td>
<td>Plant and Machinery</td>
<td>XXX</td>
</tr>
<tr>
<td>(a) By directors</td>
<td>XXX</td>
<td></td>
<td>Furniture and fittings</td>
<td>XXX</td>
</tr>
<tr>
<td>(b) By others</td>
<td>XXX</td>
<td></td>
<td>Development of property</td>
<td>XXX</td>
</tr>
<tr>
<td>Add forfeited shares</td>
<td>XXX</td>
<td>XXX</td>
<td>Patents, trademarks and designs</td>
<td>XXX</td>
</tr>
<tr>
<td>Reserves and Surplus</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Reserve</td>
<td>XXX</td>
<td></td>
<td>Livestock</td>
<td>XXX</td>
</tr>
<tr>
<td>Capital Redemption Reserve</td>
<td>XXX</td>
<td>XXX</td>
<td>Vehicles</td>
<td>XXX</td>
</tr>
<tr>
<td>Share Premium account</td>
<td>XXX</td>
<td>XXX</td>
<td>INVESTMENTS</td>
<td></td>
</tr>
<tr>
<td>Other reserves</td>
<td></td>
<td></td>
<td>Investments in Govt. of trust securities</td>
<td>XXX</td>
</tr>
<tr>
<td>Less debit balance in profit and loss account</td>
<td>XXX</td>
<td>XXX</td>
<td>Immovable properties</td>
<td>XXX</td>
</tr>
<tr>
<td>Surplus balance in Profit and Loss account</td>
<td>XXX</td>
<td>XXX</td>
<td>Investment in the capital of Partnership</td>
<td>XXX</td>
</tr>
<tr>
<td>Proposed additions to reserve</td>
<td>XXX</td>
<td></td>
<td>Balance of unutilised money firms</td>
<td>XXX</td>
</tr>
<tr>
<td>SECORED LOANS</td>
<td></td>
<td></td>
<td>CURRENT ASSETS, LOANS AND ADVANCE</td>
<td></td>
</tr>
<tr>
<td>Debentures</td>
<td>XXX</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans &amp; advances from banks</td>
<td>XXX</td>
<td></td>
<td>(A) CURRENT ASSETS</td>
<td></td>
</tr>
<tr>
<td>Loans &amp; advances from Subsidiaries</td>
<td>XXX</td>
<td>XXX</td>
<td>Interest accrued on investments</td>
<td>XXX</td>
</tr>
<tr>
<td>Other loans and advances</td>
<td></td>
<td></td>
<td>Stores and spare parts loose tools</td>
<td>XXX</td>
</tr>
<tr>
<td>UNSEURES LOANS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed deposits</td>
<td>XXX</td>
<td>XXX</td>
<td>Stock-in-trade</td>
<td>XXX</td>
</tr>
<tr>
<td>Loans &amp; advances from Subsidiaries</td>
<td>XXX</td>
<td>XXX</td>
<td>Work-in-progress</td>
<td>XXX</td>
</tr>
<tr>
<td>Short term loans &amp; advances</td>
<td>XXX</td>
<td></td>
<td>Cash balances on hand</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>a) From banks</td>
<td>XXX</td>
<td>Bank balances</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>--------------</td>
<td>-----</td>
<td>--------------</td>
<td></td>
</tr>
<tr>
<td>XXX</td>
<td>(b) From others</td>
<td>XXX</td>
<td>i) With Scheduled Banks</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>Other loans &amp; advances</td>
<td>XXX</td>
<td>ii) With others</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td>a) From banks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b) From others</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities &amp; Provisions</td>
<td></td>
<td></td>
<td>B) Loans &amp; Advances</td>
<td></td>
</tr>
<tr>
<td>XXX</td>
<td>A) Current Liabilities</td>
<td>XXX</td>
<td>Advances &amp; loans to Subsidiaries</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>i) Acceptances</td>
<td>XXX</td>
<td>Advances &amp; loans to partnership</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>ii) Sundry creditors</td>
<td>XXX</td>
<td>Firm</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>iii) Subsidiary companies</td>
<td></td>
<td>Bill of exchange</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>iv) Advance payment &amp; unexpired discounts</td>
<td>XXX</td>
<td>Advance recoverable in cash or kind or for value to be</td>
<td></td>
</tr>
<tr>
<td>XXX</td>
<td>v) Others liabilities (if any)</td>
<td>XXX</td>
<td>Received (e.g., rates, taxes, insures)</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>vi) Unclaimed dividends</td>
<td>XXX</td>
<td>Balance with customs, port</td>
<td></td>
</tr>
<tr>
<td>XXX</td>
<td>vii) Interest Accrued but not due on loans</td>
<td>XXX</td>
<td>Miscellaneous Expenditure</td>
<td></td>
</tr>
<tr>
<td>B) Provisions</td>
<td>XXX</td>
<td></td>
<td>i) Preliminary expenses</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>viii) Provision for taxation</td>
<td>XXX</td>
<td>ii) Expenses including commission or brokerage or underwriting commission on issue of shares</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>ix) Proposed dividends</td>
<td>XXX</td>
<td>iii) Discount allowed on issuance of shares or debentures</td>
<td></td>
</tr>
<tr>
<td>XXX</td>
<td>x) For contingencies</td>
<td>XXX</td>
<td>iv) Interest paid out of capital during construction</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>xi) For provident fund schemes</td>
<td>XXX</td>
<td>v) Development Expenditure</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>xii) For insurance, pension &amp; similar staff benefit schemes</td>
<td>XXX</td>
<td>vi) Other sums</td>
<td></td>
</tr>
<tr>
<td>XXX</td>
<td>xiii) Other provisions</td>
<td>XXX</td>
<td>Profit and loss a/c</td>
<td>XXX</td>
</tr>
<tr>
<td>XXX</td>
<td>Total</td>
<td>XXX</td>
<td>Total</td>
<td>XXX</td>
</tr>
</tbody>
</table>

**VERTICAL FORM OF BALANCE SHEET**

Name of the Company ................................

Balance Sheet as at ................................

<table>
<thead>
<tr>
<th>Particulars</th>
<th>S.No.</th>
<th>Figures of current year</th>
<th>Figures of previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I SOURCES OF FUNDS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Shareholder’s funds’</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Capital</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>ii) Reserves and Surplus</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>2. Loan funds:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Secured loans</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>ii) Unsecured loans</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>II APPLICATION OF FUNDS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Fixed Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Gross Assets</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>ii) Less: depreciation</td>
<td></td>
<td>(XXX)</td>
<td>(XXX)</td>
</tr>
<tr>
<td>iii) Net block</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>iv) Capital work in progress</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>2. Investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Current assets, loans and advances</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Inventories</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>ii) Sundry debtors</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>iii) Cash current assets</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>iv) Other current advances</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>v) Loans and advance</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Less Current liabilities and Provisions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Liabilities</td>
<td></td>
<td>(XXX)</td>
<td>(XXX)</td>
</tr>
<tr>
<td>ii) Provisions</td>
<td></td>
<td>(XXX)</td>
<td>(XXX)</td>
</tr>
<tr>
<td>Net Current Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Miscellaneous expenditure</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>ii) Profit and loss account</td>
<td></td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>

Requirements as to Profit and Loss Account:

According to the Companies Act, 1956 the following item should be disclosed:

- Non recurring or exceptional items should be separately stated
- The following items should be disclosed:
  
  i. total turnover or sales,
  
  ii. selling agents commission, brokerage or discount on sales other than normal trade discount,
  
  iii. the opening and closing stock of merchandise in case of manufacturing concern,
  
  iv. in case of manufacturing concern the opening and closing stock of goods produced and the purchase of raw materials,
  
  v. in case of a concern supplying services the gross collections,
  
  vi. in other case gross income,
  
  vii. work in progress at opening and closing,
  
  viii. provision for depreciation,
  
  ix. interest on debentures and fixed loans,
  
  x. any compensation paid, and
  
  xi. aggregate amount of pension or gratuity paid to managing agents, Directors etc., or any other person.

The Central government may exempt any company from these details if it thinks such exemption is desirable.
## FORMAT OF PROFIT AND LOSS ACCOUNT

Profit and loss account for the year ending ..........

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Figures of current year</th>
<th>Figures of previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales/Services rendered (Details to be given separately)</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Divided</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Interest</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Other income</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>Total (1)</strong></td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>2</strong> Expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of goods consumed / Sold</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i) Opening stock</td>
<td>XXX</td>
<td></td>
</tr>
<tr>
<td>ii) Purchases</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less closing stock</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Manufacturing Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries, wages &amp; other employee benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managerial remuneration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions for i) doubtful debts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii) Other contingencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (2)</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>3</strong> Profit/loss before tax (1-2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>4</strong> Provision for tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5</strong> Profit / loss after tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>6</strong> Proposed dividend</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Preference shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Equity shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>7</strong> Transfer to reserves and Surplus</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Requirements for Directors' Report:

As per the section 217 of the Companies' Act 1956 Director's Report shall be attached to every annual report of the company. It must cover the matters relating to the state of companies affairs, the amounts if any, proposed to be carried to reserves, the amount recommended to be paid by way of dividend, material changes and commitments if any, affecting the financial position of the company which occurred between the end of the financial year of the company to which the balance sheet relates and the date of report and the conservation of energy, technology absorption, foreign exchange earnings and outgo in manner to be prescribed.

It must also include a statement of employee who is employed throughout the financial year, was in receipt of remuneration for that year which in aggregate, was not less than such sums as prescribed (presently Rs 3 00 000 p. a.) or if employed for a part of financial year, was in receipt of remuneration for any part of that year, which is in the aggregate, was not less than Rs 25000 p. m. or if employed throughout the financial year or part there of, was in receipt of remuneration in that year, which is in aggregate, is in excess of that drawn by the Managing Director or Whole time Director of manager and holds not less than 2% of the equity shares of the company.

Further, the director is bound to give the fullest explanations to every reservation, qualification or adverse remarks contained in the report of the auditors.

Requirements for Audit of Accounts:

As per section 227(2) and 3 of the Companies Act, an auditor is required to state in his report:

- whether in his opinion and to the best of his information and according to the explanations given to him the accounts of the company gives the information required by the act in the manner so required,
• whether the accounts exhibits a true and fair view of the profits or loss and of the state of affairs of the company,

• whether the company has kept proper books of accounts and proper returns adequate for the purpose of his audit have been received from the branch not visited by him, and

• whether the balance sheet and profit and loss account are in agreement with the books of accounts and returns.

In addition, u/s 227(I-A) the auditor has to enquire in to six specified matters and to report thereon if he is not satisfied with the results of his enquiry in regard to such matters. The auditor has to enquire:

• whether loans and advances made by the company have been secured,

• whether the transactions of the company are not prejudicial to the interests of the company,

• whether the company is not an investment company, whether the securities have been sold at a price less than purchase price,

• whether the loans and advances made have been shown as deposits,

• whether personal expenses have been charged to revenue, and

• whether shares of a company have been allotted for cash, whether cash has been actually received and if not, whether the position as stated in accounts book is correct, regular and not misleading.

Under certain circumstances, a special auditor may conduct a special audit of accounts of a company for any period. The special audit report may be addressed to the Government of India and includes a statement containing information on any matter, which may be referred by the central government.

From the above discussion, it is clear that attaining transparency in the reporting practices of the companies is the essence of the legal provisions relating to the design of financial statements, Directors’ report and authentication thereof by certified public accountant.
Disclosure Norms by the Central Board of Direct Taxes (CBDT):

Disclosure norms in corporate financial reporting has been prescribed by
the CBDT in May 1996 for companies following mercantile system of accounting
system with a view to bringing about greater transparency in tax computation.
These norms are applicable from the assessment year 1997-98. The Central
government introduced these wide ranging disclosure norms by amending the
Income Tax Act, 1961 by exercising the powers conferred under sub-section (2)
of section 145 of the Act.

All significant accounting policies adopted in the preparation and
presentation of financial statements should be compulsorily disclosed by the
companies. Any deviation from the standard accounting policy, which would
have a material effect in the previous year, has to be disclosed as per the new
disclosure norms. The impact of the adjustments resulting for such change has to
be shown in the financial statements to reflect the effect of such changes. Even
for the cases where the effect of such change is not ascertainable, wholly or in
part, the fact will have to be indicated.

The CBDT notification also stipulates that provisions have to be made for
liabilities and losses even if these are not precisely measurable.

Guidelines Issued By the Bureau of Public Enterprises (BPE):

As PSUs are owned and controlled by the Government, they are expected
to make more disclosure in respect of resource management, accountability,
audit and external reporting. In view of this, BPE has laid down the following,
which should contain in the Annual reports of PSUs:

• a summary of financial results indicating the annual turnover, profit after
depreciation and interest but before tax, provision for taxation, net profits,
appropriations to reserves and provisions, proposed dividends etc.,
• information about the changes in the capital structure,
• important changes in pricing policy,
• changes in accounting methods e.g. changes in the methods of depreciation, valuation of inventories, etc.,
• main events which have influenced the production and profitability of the company under report and outlook for the forthcoming years,
• general order-book position and production performance, capacities and targets,
• export achievements of foreign exchange earnings together with the future outlook,
• any significant achievement in import substitution or development of new products, etc.,
• employer-employee relations, strikes, lockouts, incentives schemes, training, etc.,
• staff welfare activities, township, education, health facilities, and
• new projects or expansion contemplated to increase or diversify the production and progress of the concern made so far.

The BPE has also made it obligatory on the part of Public Sectors to furnish all disclosure of social overheads in respect of social accounting dimension so that these overheads can be excluded while computing "return on investment".

The following items of expenditure constitute social overheads:
• expenditure on townships,
• maintenance of school and educational facilities,
• provision of medical facilities over and above those which is statutory required to maintain by undertakings,
• maintenance of dairy farms, vegetable farms etc.,
• provision of subsidized transport, and
• subsidies in regard to the social and cultural activities.

Besides above, the BPE has made obligatory to furnish all disclosure of details of expenditure on publicity and expenditure on foreign tours.
Disclosure Norms by the Securities And Exchange Board Of India (SEBI):

The SEBI has laid down the following norms in relation to disclosure practices.

- whenever financial statements are qualified by the auditors, the necessary adjustments will have to be made in the statement themselves, and not separately. Where there has been a change in accounting policy, the profits or losses of the earlier years and of the year in which the change in the accounting policy has taken place shall be recomputed to reflect what the profits or losses of these years would have been if a uniform accounting policy was followed in each of these years,
- profit and loss statements must identify the adjustments made for prior years and these must be reflected in the profits shown,
- all the financial information given in offer documents, including accounting ratios, have to be audited,
- details regarding associate companies of the promoters have to be provided only for five biggest ones in terms of market capitalization, and
- disclosures have also to be made about the details of other income if the size of the income exceeds 20 percent of profit before tax.

Accounting Standards Formulated by the ICAI:

In India, the ICAI, the ICWA, the ICSI, All India Commerce Association (AICA), and Indian Accounting Association represent the accounting profession. Still there was no discernible contribution towards accounting theory. But, it was in 1976, because of its membership of IASC, the ICAI, decided seriously to undertake the task of setting accounting standards. Accordingly ICAI, constituted Accounting Standards Board (ASB) in 1977. The accounting standards issued by the ICAI are more or less on the same lines of International Accounting Standards with requisite modifications depending upon the needs of the country. All these accounting standards are quite important from the point of view of measurement and disclosure of accounting information.
Applicability of ASs issued by the ICAI:

ICAI has notified in October 2003 certain relaxations in applicability of AS after due consideration of representations from industry and profession. For this purpose a 'three tier' classification of commercial industrial and business enterprises have been made as under:

Level I Enterprises:

- enterprises whose equity or debt securities are listed in India or outside India,
- enterprises, which are in the process of listing their equity or debt securities,
- banks including co-operative banks,
- financial institutions,
- enterprises carrying on insurance business,
- 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, and
- holding and subsidiary enterprises of any one of the above.

Level II Enterprises:

Enterprises which are not Level I enterprises but fall in any one or more of the following category:

- all enterprises whose turnover exceeds 40 lakhs but does not exceed Rs 50 crore,
- all enterprises having borrowings including deposits in excess of Rs. 1 crore but not in excess of Rs 10 crore,
- holding and subsidiary company of any of the above.

Level-III Enterprises:

Enterprises, which are not, covered under Level Level-II and I.
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Source: ICAI notification in 2004.
Sub section 3.A to section 211 of the Companies Act, 1956 requires that every profit and loss account and balance sheet shall comply with Accounting Standards.

The Accounting Standards Issued are:

AS-01: Disclosure of Accounting Policies:

At the time of preparation of financial statements i.e. Balance sheet and profit & Loss account there are many areas, which have more than one method of accounting treatment. In such cases, any one of the methods can be followed for preparation of financial statements. Accounting policy is the information about the method adopted for preparation of financial statements. For proper and better understanding of financial statement, it is required that all significant accounting policies followed in preparation of financial statement should be disclosed. Because assets and liabilities and profit and loss account are significantly affected by accounting policies followed.

All significant accounting policies should be disclosed at one place to help the reader of financial statements.

AS-02: Valuation of Inventories:

The objective of this standard is to formulate the method of computation of cost of inventories/stock, determine the value of closing stock/inventory at which the inventory to be shown in the balance sheet till it is not sold and recognized as revenue.

Inventories consist of goods held for sale in the ordinary course of business, work in progress and stores, spares, raw material, consumables to be consumed in production process.

According to this standard, the financial statement should disclose:

- accounting policy adopted in measuring inventories,
- cost formula used, and
- classification of inventories like finished goods, WIP, raw material, spare parts and its carrying amount.
AS-03: Cash-flow Statement:

Cash flow statement is additional information to users of financial statement, which exhibits the flow of incoming and outgoing cash. This statement is one of tools for assessing the liquidity and solvency of the enterprise.

Cash flow statement explains cash movement from operating activities, investing activities, and from financing activities. Sum of these three types of cash flow reflect net increase or decrease of cash and cash equivalents. Cash flows consist of cash in hand, demand deposits, and short term highly liquid investment having maturity less than three months, which can be readily converted into cash without decline of its value.

An entity should disclose the components of cash and cash equivalents and should present a reconciliation of the amount in the cash flow statement with equivalent items reported in the balance sheet. And the entity should also disclose about amount of cash and cash equivalent balance held by the entity that are not available for use by it with explanation of management.

AS-04: Contingencies and Events Occurring after the Balance Sheet Date:

In preparing financial statement of a particular enterprise, accounting is done following accrual basis of accounting and prudent accounting policies to calculate the profit or loss for the year and to recognize assets and liabilities in Balance Sheet. While, following accounting policies, the provision is made for all known liabilities and losses even for those liabilities/ events, which are probable. Therefore, the objective of this standard is to prescribe the accounting of contingencies and the event, which takes place after the balance sheet date but before approval of balance sheet by board of directors.

Hence, provision for loss is estimated on the basis of information available up to the date of approval of accounts by competent authority. But the contingency must exist on the date of balance sheet. If contingency does not exist on the balance sheet date no provision or notes to accounts is required.
If material contingent loss is not provided for, its nature an estimate of financial effect should be disclosed by way of note. If estimate of financial effect cannot be made, the fact should be disclosed.

**AS-05: Net Profit or Loss for the Period, Prior Period Items and Change in Accounting Policies:**

The objective of this accounting standard is prescribing the criteria for certain items in the profit and loss account so that comparability of the financial statement can be enhanced.

Profit and loss Account being a period statement covers the items of the income and expenditure of the particular period. However, there may be the situation that the particular income or expenses appearing in the profit or loss account may not relate to the same period. This AS prescribes the accounting treatment for such item in profit and loss account. It also deals with change in accounting policy and accounting estimates.

The company should disclose the following items:

- Prior period items: The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be prescribed.
- Disclosure of accounting estimate:
  (a) the effect of a change in accounting estimate disclosed in net profit or loss,
  (b) the period of change, if the change effects the period only, and
  (c) the period of change and future periods, if the change affects both.
- Disclosure of change in accounting policies.

**AS-06: Depreciation Accounting:**

It is a measure of wearing out, consumption or other loss of value of depreciable asset arising from use, passage of time. Depreciation is nothing but distribution of total cost of assets over its useful life.
Depreciable assets are those, which are expected to be used for more than one accounting period and have a limited useful life and held for use in production of goods and services. This AS is applicable for all depreciable assets except forests, wasting assets, minerals and natural gas, goodwill and livestock.

According to this standard, the company should disclose:
- total cost of each class of assets,
- total depreciation for the period of each class of assets,
- accumulated depreciation of each class of assets, and
- depreciation method.

**AS-07: Construction Contract (revised):**

Construction contract is a contract specifically negotiated for the construction of an asset or combination of assets closely interrelated or interdependent. Accounting for long-term construction contracts involves question as to when revenue should be recognized and how to measure the revenue in the books of contractor, as the period of construction contract starts in one year and is completed in another year.

Therefore, the objective of this standard is to formulate the method for recognizing the revenue in the books of contractor for construction contract. According to revised standard, percentage of completion method should be used for recognizing the revenue in the books of contractor.

The following items should be disclosed:
- the method used to determine the stage of completion of contract in progress,
- the amount of contract revenue recognized in the period,
- contract cost incurred and recognized profit,
- advance received,
- gross amount due from customers for contract work, and
- gross amount due to customer for contract work.
AS-09: Revenue Recognition:

Revenue means gross inflow of cash receivable or other consideration arising in the course of ordinary activities of an enterprise such as sale of goods, rendering the services, use of the enterprise resources by others yielding interest, dividend and royalties etc. The standard explains when the revenue should be recognized in profit and loss account and also states the circumstances in which revenue recognition can be postponed. According to this standard, when revenue recognition is postponed, the disclosure of the circumstances necessitating the postponement should be made.

AS-10: Accounting for Fixed Assets:

Fixed Asset is an asset which is held with an intention of being used for the purpose of producing or providing goods and service and not held for sale in the normal course of business and expected to be used for more than one accounting period. According to this standard, fixed assets should be recorded in financial statement either at historical cost or revalued price. It also prescribes method for computation of historical cost, revalued price and valuation method of fixed assets in special cases viz. assets on hire purchase system, jointly held assets etc.

According to this standard, gross and net book value of fixed assets at the beginning and at the end of accounting period showing additions, disposal, acquisition and other movements should be disclosed.

AS-11: Accounting for the Effects of Changes in Foreign Exchange Rates:

In India, financial statements are prepared in rupee, which is the reporting currency. All the transactions are done in rupee therefore recorded in rupee. However, if enterprise has the transaction in another currency because of exports or imports of material, plan or loan from abroad, transactions will be in foreign currency but reporting has to be done in rupee. Further, there may be foreign branches of Indian company where transactions are in foreign currency.
In such cases, there is need to translate the foreign currency transaction into Indian rupee to prepare and present financial statements in India.

This accounting standard prescribes the method, procedure for translation of foreign currency transactions in Indian rupee (reporting currency). According to it, all foreign currency transactions except the inter-related foreign currency transactions should be recorded at the date of transactions applying the exchange rate applicable to date of transactions it also prescribes the accounting treatment for forward exchange contract, subsequent changes in currencies to initial recognition and its effect on financial statements.

The company should disclose the following:

(a) amount of exchange difference included in the net profit or loss for the period,
(b) amount of exchange difference adjusted in the carrying amount of fixed during the accounting period, and
(c) amount of exchange difference in respect of forward exchange contracts to be recognized in profit or loss for one or more subsequent accounting period.

AS-12: Accounting for Government Grants:

Government grants are assistance by the government in the form of cash or kind to an enterprise in return for past or future compliance with certain conditions. Government grants are sometimes called as subsidies, cash incentives, and etc. Government grants may be of monetary or non-monetary. The Government grant should be recognized when there is reasonable assurance that the enterprise will comply with the conditions attached to them and the grants will be received.

The following disclosures are appropriate:

(a) the accounting policy adopted for government grants including the methods of presentation in the financial statement, and
(b) the nature and extent of Government grants recognized in the financial statements including grants of non-monetary assets at a concessional rate or free of cost.

AS-13: Accounting for Investments:

Investment is the asset held for earning income by way of dividend, interest and rentals, for capital appreciation or for other benefits. The standard prescribes the basis for recognition of interest, dividend and rentals earned on investment, operating or finance lease, investment of retirement benefit plans and life insurance enterprises, etc. It classified the investment into long term investment and current investment.

According to this AS, the company should disclose the following items:

(a) accounting policies followed for valuation of investments, classification of investments into current and long term in addition to classification as per Schedule VI of Companies Act,

(b) aggregate amount of quoted and unquoted securities separately, and

(c) any significant restriction on investment like minimum holding period for sale/disposal, utilization of sale proceeds, or non-remittances of sale proceeds of investment held outside India.

AS-14: Accounting for Amalgamation:

This AS deals with accounting to be made in the books of Transferee Company in case of amalgamation. As per this standard, there are two types of amalgamation. They are in the nature of merger and in the nature of purchase. This AS prescribes how the accounting for purchased assets and liabilities shall be made in the books of Transferee Company. The company should follow ‘Pooling Interest Method’ in case of amalgamation in the nature of merger and ‘Purchase Method’ in case of purchase.
According to this standard, in first financial statement of transferee company the following disclosure for all amalgamation should be made:

(a) names and general nature of business of amalgamating companies,

(b) effective date of amalgamation, and

(c) particulars of scheme sanctioned under statute.

AS-15: Accounting for Retirement Benefits in the Financial Statements of Employers:

Retirement Benefit Schemes are arrangements (legal/contractual) where an employer provides benefits to employees on leaving service or retirement or after an employee’s death to his dependents. They are Provident Fund, Superannuation Fund/ Pension, Gratuity, and Leave Encashment benefit on retirement. Retirement benefits are of two types. They are defined contribution scheme and defined benefit scheme. In case of defined contribution scheme, amount to be paid to the employee is determined on the basis of contribution made to fund and accumulated income thereon. While, amount to be paid on defined benefit scheme is determined usually on the basis of employee’s salary and length of service. This standard prescribes the accounting treatment for both the schemes.

In view of the diversity of practices followed in accounting of retirement benefits costs, adequate disclosure of method followed in accounting for them is essential for an understanding of the such costs of an employer. Disclosures should pertain to the following:

(a) method by which retirement benefit costs for the period has been determined, and

(b) in case the costs related to gratuity and other defined Benefit Scheme are based on actuarial valuation, the financial statement must disclose the date of actuarial valuation.
AS-16: Borrowing Costs:

Enterprises are borrowing the funds to acquire, build and install the fixed assets and other assets. These assets take time to make them usable or suitable, therefore the enterprise incur the cost on borrowing to acquire and build these assets. Borrowing costs are defined as interest and other costs incurred related to borrowing of funds. It includes interest and commitment charge on borrowing, amortization of discounts, finance charges if asset is acquired under finance lease etc.

The objective of this AS is to prescribe the treatment of borrowing cost (interest+ other costs) in accounting, whether cost of borrowing should be included in the cost of assets or not. The financial statement should disclose the accounting policy adopted for borrowing cost and the amount of borrowing cost capitalized during the period.

AS-17: Segment Reporting:

An enterprise deals in multiple products/services and operates in different geographical areas. Multiple products/services and operations in different geographical areas are exposed to different risk and return. Information about multiple products/services and its operation in different areas are called segment information. Such information is used to assess the risk and return of multiple products/services and its operation. Disclosure of such information is called segment reporting.

Segment reporting helps users of financial statements to better understand the performance of the enterprise and better assess the risks and returns of the enterprise. This AS prescribes the basis for recognition of primary and secondary reportable segments.

AS-18: Related Party Disclosure:

A related party is essentially any party that controls or can significantly influences the management or operating policies of the company. It includes
Parent and Subsidiary company, joint venture partner, investor and investee, associates, key management personnel of reporting enterprise, relative of individual enterprise etc. Business transactions between related parties' affect the volume and decision of business of one enterprise for the benefit of the other enterprise. Hence disclosure of related transaction is essential for proper understanding of financial performance and financial position of enterprise.

Therefore, according to this standard, the following facts should be disclosed:

(a) name of related party,
(b) description of relationship,
(c) transactions between a reporting enterprise and its related parties,
(d) volume of transactions either as an amount or as an appropriate proportion,
(e) any other element of the transactions, which is essential for understanding the financial statements,
(f) amount or appropriate proportion of outstanding items and provision for doubtful debts, and
(g) amount written off or return back in the period in respect of debts due from to related party.

Disclosure is must of the related parties even if the transactions are arms length transactions or transactions are not influenced by the relationship.

AS-19: Accounting for Leases:

Lease is an arrangement by which the lessor gives the right to use an asset for given period of time to the lessee on rent. Lease may be Finance lease or Operating lease. It involves two parties, a lessor and lessee and an asset, which is to be leased. The lessor, who owns the asset, agrees to allow to the lessee to use it for a specified period of time in return for periodic rent payments.
The lease transactions derive its accounting complexity from number of alternatives available to the parties involved. Lease can be structured to take tax benefit. They can be used to transfer ownership of the lease asset, and they can be used to transfer the risk of ownership. Therefore, this AS provides the basis for recognition of lease arrangements in financial statements. It prescribes the accounting treatment for operating and financing lease.

The following disclosure in financial statements of the lessee and lessor should be made as regards lease:

1. general description of significant leasing arrangements,
2. accounting policy for initial direct payment,
3. future lease payments in aggregate classified as,
   - Not later than one year,
   - Later than one year and not later than 5 years,
   - Later than 5 years. and
4. lease payment recognized in profit and loss account.

AS-20: Earning Per Share:

EPS is a financial ratio that gives the information regarding earning available to each equity share. It is very important financial ratio for assessing the state of market price of share. This AS gives computational methodology for the determination and presentation of earning per share, which will improve the comparison of EPS.

The statement is applicable to the enterprise whose equity shares are listed in a stock exchange. The listed company should disclose the following:

- The amount used as numerator for calculating basic and diluted equity and its reconciliation with net profit or loss for the period, and
- Weighted average number of shares used as denominator for calculating basic and diluted EPS and reconciliation of their denominators to each other.
AS-21: Consolidated Financial Statements:

The objective of this standard is to present financial statements of a parent and its subsidiary as a single economic entity. In other words, the holding company and its subsidiaries are treated as one entity for the preparation of these consolidated financial statements.

Consolidated profit and loss account and consolidated balance sheet are prepared for disclosing the total profit/loss of the group and total assets and liabilities of the group.

Following disclosure should be made in consolidated financial statements:

- list of all subsidiaries,
- proportion of ownership interest,
- nature of relationship between Parent and subsidiary whether direct control or control through subsidiaries,
- name of the subsidiary which reporting date are different,
- the fact for different accounting policies applied for preparation of consolidated financial statement, and
- if consolidation of particular subsidiary has not been made as per the grounds allowed in accounting standards the reason for not consolidating should be disclosed.

AS-22: Accounting for Taxes on Income:

This AS prescribes the accounting treatment for taxes on income. Traditionally amount of tax payable is determined on the profit/loss computed as per income tax laws. According to this AS tax on income is determined on the principle of accrual concept. The tax should be accounted in the period in which corresponding revenue and expenses are accounted i.e. on accrual basis.
The company should disclose the following items:

- the break-up of deferred tax asset/liability,
- in case of deferred tax asset arising out of unabsorbed depreciation or loss, evidence-supporting recognition should be disclosed,
- deferred tax asset/liability should be disclosed separately from current asset/liabilities. They should also be distinguished from advance tax/ tax provision/tax refund due, and
- deferred tax asset and liability should be set off if permissible under the tax laws but to be shown separately if not permissible.

**AS-23: Accounting for Investments in Associates in Consolidated Financial Statements:**

The Accounting Standard was formulated with the objective to set out the principles and procedures for recognizing the investment in associates in the consolidated financial statements of the investor, so that the effect of investment in associates on the financial position of the group is indicated.

Investor should disclose the following in its consolidated financial statements:

- Description of associate including the proportion of ownership interest should be disclosed,
- Investment in associates accounted for using the equity method should be classified as long term investments, and
- Difference in reporting dates of financial statements of associates and of the investor should be disclosed.

**AS-24: Discontinued Operations:**

The AS discontinuing operations issued by the ICAI is recommendatory in nature at present. This standard covers ‘discontinuing operations’ rather than ‘discontinued operations’.
The focus of the disclosure of the information is about the operations, which the enterprise plans to discontinue, rather than disclosing about the operations, which are already discontinued.

The company should disclose the following items:

- description of the discontinuing operation,
- business or geographical segments in which it is reported,
- date and nature of initial disclosure event,
- timing of expected completion of discontinuance,
- carrying amount of total assets and liabilities to be disposed off,
- amount of revenue and expense attributable to discontinuing operation,
- amount of pre-tax profit or loss and tax expense attributable to discontinuing operation, and
- net cash flows attributable to the operating, investing and financing activities of the discontinued operation.

AS-25; Interim Financial Reporting:

Interim financial reporting is the reporting for periods of less than a year. As per clause 41 of listing agreement, the companies are required to publish the financial results on a quarterly basis. The basic objective of Interim Financial Reporting is to provide frequent and timely assessment of enterprise performance. As per the AS, interim financial reporting means a financial report containing either a complete set of financial statements or set of condensed financial statement for an interim period. A complete set of financial statements includes:

- balance sheet,
- statement of profit and loss account,
- cash flow statement,
- notes to accounts and accounting policies
AS-26: Intangible Assets:

Following are the objectives of this standard:

- prescribing accounting treatment for intangible assets,
- prescribing criteria for recognition of assets in books of accounts,
- how to measure the amount at which the intangible assets should be recorded in books,
- amortization method for intangible assets, and
- disclosure about intangible assets in financial statements of the enterprise.

According to this standard, the financial statement should disclose the following in respect of intangible asset:

- useful life or amortization rate,
- amortization method,
- gross carrying amount, accumulated amortization and impairment loss at the beginning and at the end of the period, and
- reconciliation of carrying amount at the beginning and at the end of the period.

AS-27: Financial Reporting of Interest in Joint Venture:

Joint venture is defined as contractual arrangement whereby two or more parties carry on economic activity under joint control. A Venture should make the following disclosure in its separate as well as in consolidated financial statements:

- a list of all joint venturer description of interest in significant Joint Venture,
- proportion of interest in case of jointly controlled entity,
- the aggregate amounts of each of the assets, liabilities, income and expenses related to its interest in the jointly controlled entities,
• amount of capital commitments in the joint venture that has been incurred with other venturer and its share in such capital commitments,
• any contingency that has been incurred in relation to its interest in joint venture, and
• its share of contingencies that has been incurred jointly with other Venturer.
• Contingencies for which the venturer is liable for other venturer of joint venturer
References:


3. ICAI notification issued in October 2003


