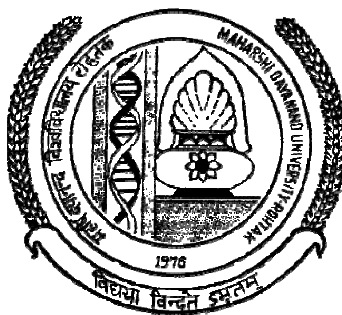
M. Com. (Previous) **Semester-I**

ACCOUNTING STANDARDS AND FINANCIAL REPORTING

Code No. 20MCO21C1



DIRECTORATE OF DISTANCE EDUCATION

MAHARSHI DAYANAND UNIVERSITY, ROHTAK

(A State University established under Haryana Act No. XXV of 1975)

NAAC 'A+' Grade Accredited University

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Maharshi Dayanand University
ROHTAK – 124 001

M.Com (Two Year Course) Semester -I
Accounting Standards and Financial Reporting
Paper Code: 20MCO21C1

M. Marks = 100
Term End Examination = 80
Assignment = 20
Time = 3 hrs

Course Outcome:-

CO1: This subject provides detailed insight into accounting regulations and accounting aspects of Companies.

CO2: To know about Stages and Process of Standards settings by ICAI in India along with Compliance and Applicability of Accounting Standards in India.

CO3: To understand the difference between Accounting Standard, IFRS, IASB and FASB and also gain knowledge on Convergence of Indian Accounting Standards with IFRS

CO4: To learn about the IFRS current status and Challenge and also understand the concept of harmonization in Accounting and Reporting.

CO5: It also covers contemporary issues in accounting i.e. Human Resource Accounting, Corporate Social Reporting, Forensic Accounting and Reporting. Environmental Reporting.

Note: The examiner shall set nine questions in all covering the whole syllabus. Question No.1 will be compulsory covering all the units and shall carry 8 small questions of two marks each. The rest of the eight questions will be set from all the four units. The examiner will set two questions from each unit out of which the candidate shall attempt four questions selecting one question from each unit. All questions shall carry 16 marks each.

Unit-I

Accounting Standards: Meaning, Objectives, Benefits, Scope; Stages and Process of Standards settings in India, Accounting Standards issued by ICAI, Compliance and Applicability of Accounting Standards in India, The Companies (Indian Accounting Standards) Rules, 2015

Unit-II

International Financial Reporting Standards: Meaning, History, Objectives, Scope; Convergence of Indian Accounting Standards with IFRS: Current Status and Challenges; IASB: History, Objectives, Scope; FASB: History and its Pronouncements. Harmonization in Accounting and Reporting.

Unit-III

Financial Disclosures and Reporting: Objectives and Concepts, Developments on Financial Reporting Objectives: True blood Report, Corporate Report, Stamp Report, IASB's and FASB's Conceptual Framework, Corporate Annual Report, Segment Reporting and Interim Financial Reporting.

Unit-IV

Financial Reporting by Mutual funds, Non-banking finance companies, Merchant bankers Contemporary Issues in Accounting:- Human Resource Accounting, Corporate Social Reporting, Forensic Accounting and Reporting. Environmental Reporting.

Suggested Readings:-

1. Kenneth S. Most, "Accounting Theory", Ohio Grid Inc.
2. JawaharLal, "Corporate Financial Reporting: Theory and Practice" Taxman, 2nd Ed.
3. Vijay Kumar, M.P, "First Lesson on Accounting Standards", Snowwhite.
4. Glautier, H.W.E. And Undordown, B. "Accounting Theory and Practice" (Arnold Heinemann).

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UNIT-1

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1.5	Scope of Accounting Standards
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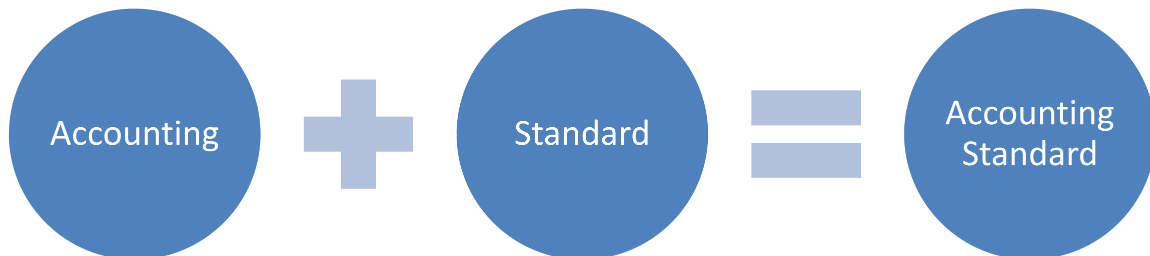
OBJECTIVES OF THE UNIT:

After studying this unit, the students will able to understand:

- Meaning, nature, scope, types and objectives of Accounting Standards
- Procedure of setting of Accounting Standards in India
- Different Accounting Standards issued by ICAI in India
- The Companies Rules, 2015

1.1 INTRODUCTION TO ACCOUNTING STANDARDS

Accounting Standard is a combination of two terms which is accounting and standard.



"Accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof".

Standard is a yardstick against which something is being compared. It means a generally accepted model or an ideal. It serves as a guidepost for truth and fair dealings.

According **to Kohler,** "Accounting standard is defined as a mode of conduct imposed on accountants by custom, law or professional body".

Basically it deals with the following:

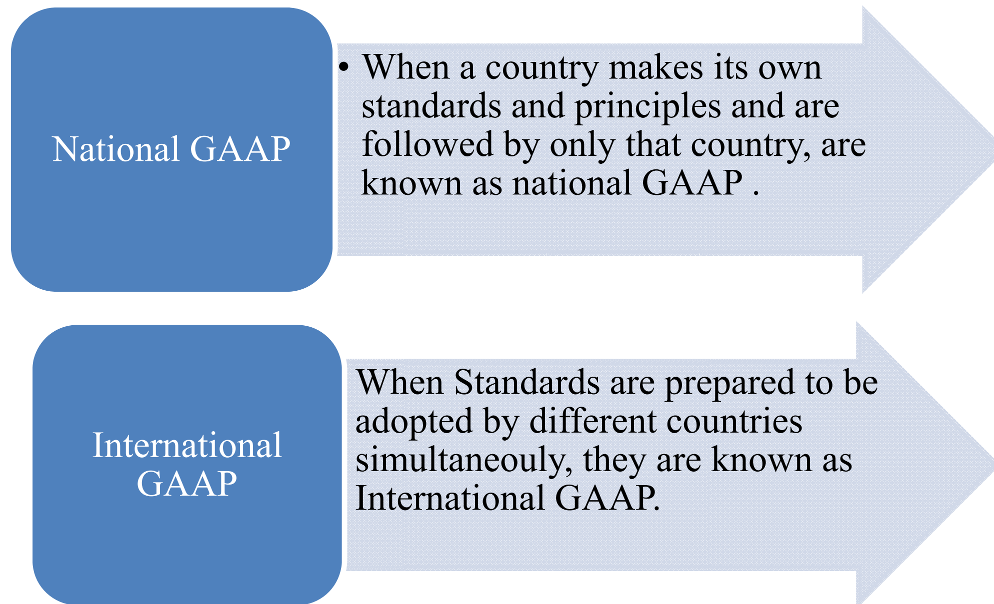
1. • Recognition of events and transactions in financial statement.
2. • Transacting and Measuring the events.
3. • presenting the same in F.S. manner that provide a meaningful information to users.
4. • Disclosure requirement of events and transactions.

SETS OF ACCOUNTING STANDARDS IN INDIA:

- ➢ Indian Standards of Accounting are notified under The Companies (Indian Accounting Standards) Rules 2015.
- ➢ Indian GAAP are specified under The Companies (Accounting Standards) Rule 2006.

There are two sets of AS in India and company is required to follow any one of them.

Generally Accepted Principles of Accounting:



IFRS Compliance:

1. IFRS adoption means countries adopting IFRS prepared by IASB.
2. IFRS Convergence means preparing domestic standards in accordance with IFRS.

1.2 OBJECTIVES OF ACCOUNTING STANDARDS (AS)

The basic motive of accounting standards is to harmonize the different policies of accounting and procedures.

1.2.1 Worldwide acceptance: Most important objective of AS is to construct a standard set of accounting blue print, valuation norms and specifications for disclosure so that financial statements prepared would become easy and comparable and therefore, they get recognition from all over the world.

1.2.2 Harmonisation of Accounting Policies: While preparing financial statements, it becomes necessary to follow some set of procedures as well as guidelines in calibrated form to make accounting policies more diversified and harmonised.

1.2.3 Conformity: To make two financial statements of a kind, it becomes necessary that same set of rules is to be followed by the firms so that their comparison becomes possible. Comparison may be inter-firm as well as intra-firm. Inter-firm comparison can be accomplished by way of comparing profits, etc. of firms in an industry. Intra-firm comparison is achieved by comparing two or more departments or divisions belonging to the same firm so as to ensure its efficiency and effectiveness.

1.2.4 Obliteration of any variances: There may arise incongriuancy when actual results differ from the expected ones. To avoid this, actual monetary amount associated with each item of revenues and expenditures must be recorded and reported properly.

1.2.5 Properly Regulated: Transparent investment norms, regular monitoring and performance review of every company are ensured so that divergence rules may not creep in any way.

1.3 PROCEDURE OF SETTING UP THE ACCOUNTING STANDARDS

In India, the term standard gains popularity from the establishment of ASB in April, 1977 by the Institute of Charted Accountant of India. The term AS may be defined as published statement televised every once in a while by professional organizations of accounting or organizations which has adequate association with it. Such institutions of accounting and bodies of accounting are presently found in numerous economies globally for example, ASB India, Financial ASB USA and ASB UK, etc. At the international level, IASB has been developing and publishing basic accounting standards for the interest of public to be observed in preparation and presentation of audited financial statements and to support their international recognition and execution.

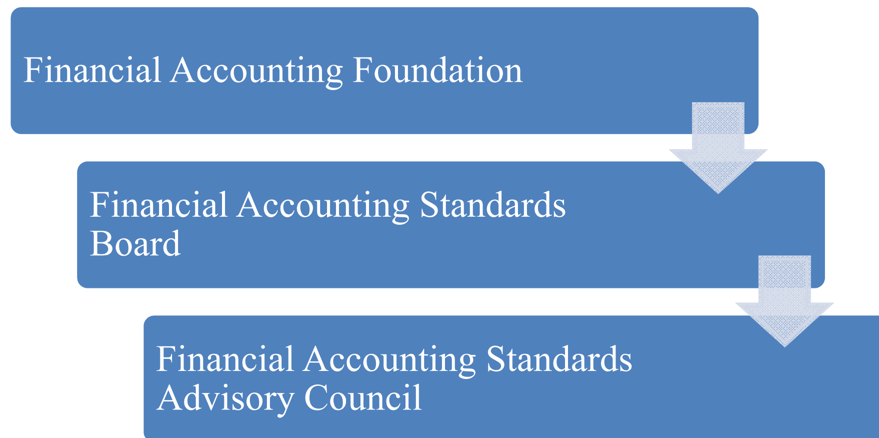
Parties involved in Setting of Accounting Standards:

a) **Securities and Exchange Commission (SEC):** It is an interstate organisation which was created after the stock crash of 1929. After great depression, the government felt a need to regulate the financial institution market and therefore created SEC to help development of standards for financial information that were presented to stakeholders. The main reason behind this was many investors were basically investing in some companies which did not even exist. So, government established SEC to develop financial AS. What SEC do? It empowers the private companies to set rules although they have also the power to make their own rules. SEC plays an oversight role. There are two Acts for SEC- SEC 1933 regulate the primary market and stops issuance of stocks from the companies to the investors through initial public offerings (IPO's) and it regulates what needs to be disclosed to the public before issuing stocks.

b) **American Institute of CPAs (AICPA):** It plays a major role in setting the standards and is considered to be the mother of all Accounting organisations. It is the national organisation and it created :

1.Bureau of reckoning series of action	2.Accounting Principles Board
• 1939 to 1959. • Issued 51 Accounting Reserach Bulletins (ARBs). • Problem-by -problem approach failed.	• 1959 to 1973. • Issued 31 Accounting principle Board Opinions (APBOs). • Recommendations of Wheat Committee adopted in 1973.

c) **Financial Accounting Standards Board**: It basically has three organisations:



- FAF: Chooses the members of FASB which has seven full time members and gets money for the services rendered; funds their activities and exercises general oversights.
- FASB: Its goal is to set up and develop financial accounting and reporting standards
- FASAC: Its role is to consult on major policy issues.

This standard procedure of AS board can be summarized as follows in brief:

A. **Recognition of Area**: First step is to identify the wider areas by ASB in the formulating of AS.
B. **Composition of study group**: It makes the preliminary draft of proposed AS which includes the objectives and scope of the standard, terminologies applied in the standard, recognizing and measuring relevant principles and presenting and disclosing important requirements.
C. **Preparation and circulation of draft**: It includes considering the preliminary draft proposal by study group of ASB and then circulates the same to the associates of ICAI, and various other outside bodies such as SEBI, CAG, CBDT for suggestions.
D. **Assessing the comments of different bodies on draft**: Next step is to meet the various representatives of different outside bodies and to try to inculcate their suggestions if felt necessary.
E. **Finalization of E.D.**: After having different suggestions, the proposed draft will be finalized for issuance of inviting public comments.
F. **Modification of draft**: In this step, changes in the draft will be done
G. **Issuance of AS**: After considering the various suggestions by different authoritative bodies, preparation and issuance of final draft is done.

1.4 BENEFITS OF ACCOUNTING STANDARDS

Main advantages of Accounting Standards are:

- ❖ **Enhancing Credibility and Consistency of Financial Statements:** Financial statements prepared by various organisations must exhibit true and fair view of financial information so that it will be helpful for all its users to make sound economic decisions. The firmness of economic

structure depends on the self-reliance of the users and other groups in the equality and consistency of financial statements. However, substitute of measuring an economic activity prevails and is considered best if uniformity in methods of accounting policies is there.

- ❖ **Beneficial for Accountants and Auditors:** The work of accountants and auditors changes with the passage of time. As a result with the issuance of new and emerging rules and regulations they have to modify themselves with the changes in scenario. To cover the risk in accounting profession, there arises a need of some guidelines to be followed. It is not only for the clients to follow the AS but is the responsibility of auditors to follow AS to make financial reporting more realistic. They act as a guidepost which will satisfy users' requirements.
- ❖ **Determining Managerial Accountability:** AS open the door for the corporates to justify the standards and policies to be followed by them. They help in evaluating administrative expertise in preserving and enhancing the profitability of the firms. They portray the way company is going on, its solvency and liquidity and ultimately pave the way for improving the managerial effectiveness.
- ❖ **Reform in Accounting Theory and Practice:** One of the drawbacks faced by financial accounting is the lack of theoretical foundation and construction for measurements of accounting and reporting of financial matters which could now be achieved with the issuance and development of appropriate AS accepted universally.
- ❖ **Comparability of Financial Statements:** To make financial statements two of a kind, it becomes necessary that same set of rules is to be followed by the firms so that their comparison becomes possible. Comparison may be inter-firm as well as intra-firm. Inter-firm comparison can be accomplished by way of comparing profits, etc. of firm in an industry. Intra-firm comparison is achieved by comparing two or more departments or divisions belonging to the same firm so as to ensure its efficiency and effectiveness.
- ❖ **Standardisation of Alternative Accounting Treatments:** Accounting standards try to reduce unnecessary amount of variations in the accounting treatment. To avoid this, actual monetary amount associated with each item of revenues and expenditures must be recorded and reported properly.

1.5 SCOPE OF ACCOUNTING STANDARDS (AS)

1. An attempt has been made for issuance of AS which are in compliance with the prerequisite of pertinent laws, usages, conventions and trade environment of the country.
2. The very nature of AS will pose problems in preparation and presentation of financial statements. The organization will decide the scope of disclosure which is to be made in financial statements. Appropriate footnotes should clearly be mentioned regarding the treatment of particular items.
3. The AS are applicable to items that have material effect. Items to be included and excluded should clearly be mentioned by the organization from time to time in AS applicable to different classes of enterprises.

4. In order to achieve the purpose of uniformity in financial statements, the institute should try to force government and apt authorities to adopt these AS.

5. AS should be straightforward and easy to recognize, they should not be so complex otherwise it will pose a difficulty in accepting them worldwide. In the years to come, it is expected that AS will undergo series of changes to ensure greater degree of sophistication.

1.6 TYPES OF ACCOUNTING STANDARDS

1.6.1 ACCOUNTING STANDARD-1 (Disclosure of Accounting Policies)

The accounting policies, procedures and methods are to be disclosed in the financial statements of the business organization in order to comply with Accounting Standard-1. This standard deals with the disclosure of accounting policies and principles like, Prudence, Substance over Form, Materiality, etc. adopted by the business organization which are based on several accounting concepts like going concern, consistency, etc. Any change in such policies, the reasons for change along with the effect of such changes on financial statements of a concern should be separately disclosed.

1.6.2 ACCOUNTING STANDARD-2 (Inventory Valuation)

Accounting Standard-2 deals with the information pertaining to various methods of inventory valuation and out of such methods which one is opted by the business and why. As per this standard, inventory should be computed and disclosed in the books of accounts on the basis of cost price or market price, whichever is less. A business can use any of the methods like, LIFO, FIFO, Weighted Average Cost, Standard Cost, etc. depending upon various factors and requirements kept in mind by the business organization. According to this standard the policies opted for inventory valuation, the methods used, classification of stock and amount of stock should separately disclosed in the financial statements of the concern.

1.6.3 ACCOUNTING STANDARD -3 (Cash Flow Statement)

Accounting Standard-3 states that a statement is to be prepared in the end of the financial year to see the changes in cash position (cash and cash equivalents) in between two dates (In the beginning and in the end of the financial year) by taking into consideration operating, financing and investing activities, known as cash flow statement. Where, **Operating activities** are the fundamental revenue generating pursuit of an undertaking and the activities which are not investing and financing activities.

Investing activities include the procurement along with ejection of assets which are to be considered as long term and other investments which are not a part of equal to value in cash.

Financing activities are those activities that result in revamping in size and configuration in the net worth and borrowing of an organization.

As per AS-3, following disclosures are required to be made in the financial statements of a concern:

- Cash and cash equivalent which is not available for use by an enterprise must distinctly be recorded.
- Cash flows that increase the operating capacity of an enterprise to generate enough cash and cash equivalents must also be disclosed.

- Any additional information which must be useful for users of financial statements in understanding the liquidity and financial position of an enterprise should also be disclosed.
- The effect of change in any policy must be mentioned clearly in order to calculate cash and cash equivalents.

1.6.4 ACCOUNTING STANDARD-4 (Contingencies and Events Occurring subsequent to the Balance Sheet Date)

The main purpose of this accounting standard is to describe the events or contingencies that occur subsequent to the Balance Sheet date. It is further mentioned in the standard that the accounting treatment of such contingencies should properly be shown in the financial statements as such events may have legal considerations as well. The nature of contingencies along with its future outcome and its impact on financial aspects of the business should separately be disclosed.

1.6.5 ACCOUNTING STANDARD -5 (Net profit or loss during the period, prior period items and changes in accounting policies)

Accounting Standard-5 states the method of accounting for ordinary items, extraordinary items and prior period items. "Ordinary activities are those activities which are taken by the concern as a part of its business whereas, extraordinary items are those (either income or expenses) that arise and are evidently separate from the ordinary activities of the enterprise. Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. Accounting policies are the specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements".

Accounting treatment and disclosures

- Disclosure of certain items within profit or loss from ordinary activities
- Classification and disclosure of extraordinary and prior period items
- Accounting treatment and disclosure for changes in the accounting estimates
- Disclosure of changes in the accounting policies

1.6.6 ACCOUNTING STANDARD-6 (Depreciation Accounting)

Applicability: The ICAI has issued AS-6 in 1985. During the period of 1988 certain rules concerning the depreciation were stated in XIV Schedule of Indian Companies Act, 1956. After that certain changes were made in Para 13 of this accounting standard. Given is the brief description of amended AS-6:

- Depreciation is charged on all devaluated assets except:
    - Woodland, orchard and revitalized mineral deposits.
    - Oilfield, mineral oil, natural gas and other wasting assets.
    - Expenses relating to research and development.
    - Live stock

- There must be clarity in adopting different accounting stratagem by every enterprise with regard to depreciation.

Explanation: Depreciation is charged on an asset up to the lost value and therefore any increment in standard price must not be duly contemplated. Depreciation is provided on the following points:

- Historical cost
- Life expectancy of lost value of asset
- Salvage value of depreciable asset.

Any reduction in value of asset in its historical cost in financial terms represents the growth of that asset. Historical cost may arise with regard to degree of increment or deterioration in long term obligations due to various changes therein.

- Remaining life of asset is less than its real life and is:
    - Pre-decided by various judicial and lawful restrictions.
    - Immediately affected by removal or exploitation.
    - Depleted
    - Affected by changes in technology, improvement in method of production and obsolescence also results in decrease in value of asset.
- Effort is required in determining the estimated life of asset as it depends on number of factors.
- Depreciation is charged at prior rate if an asset leads to any improvement then such extension is added with the actual cost of that asset.
- Difficulty may occur when valuing the asset in parts.
- Analysis of provision for depreciation must be done timely which will help management in taking managerial, technical, and commercial and other accounting decisions.
- If management thinks appropriate and a need arises to revise the previous estimate of an asset then such asset must not be written off but charged against profit and loss account during its expected life.
- Considering the diverse methods of charging depreciation, direct method and balancing methods are considered as peculiar ones. The choice of methods depends on nature of asset and if estimated useful life is not so important, must be amortised fully in the period in which it was purchased.
- In absence of any rules regarding method and rate of charging and applying depreciation, written down method has to be used and 95% of the original cost of asset must be depreciated during the life of asset as mandated by the Companies Act, 1956.

- In case the asset is damaged, or even scrapped then any surplus or deficiency arisen on such damage or scrap must be shown separately.
- Same method of charging the depreciation must be adopted every year so that results become comparable.
- Disclosure is required for the following: Cost of replacing an asset, total amount of depreciation charged on particular asset, accumulated depreciation, and depreciation method used, expected life of an asset, rate of depreciation.

1.6.7 ACCOUNTING STANDARD-7 (Accounting treatment for Construction Contracts)

The main purpose of Accounting Standard-7 is to recognise revenue and expenditure with regard to construction contracts and having records of all the details pertaining to various types of construction contracts in to the financial statements of the contractor. The construction contracts may be of two types (1) Fixed price contracts (2) Cost plus contracts. The business organization can use either of the methods i.e. percentage of completion method or completed contract method. In case of losses, following must be taken into account: whether contact work has been started or not, completion level and possibility of profit accrued to contracts that are unrelated. Disclosure is obligatory in respect of method of accounting used by contractors and the associated accounting policy used by them.

1.6.8 ACCOUNTING STANDARD-8

The treatment of cost incurred on research and development is explained through Accounting Standard-8 where it is specifically mentioned that the expenses must be apportioned on the basis of time to which they relate. If some expenses are incurred for future period, they should be carried forward while preparing financial statements but subject to the following conditions:

a. The process of the product is identified and the expenses incurred there to are also acknowledged.
b. A separate methodology of the product has been designed and adopted.
c. The objectives of the product/process have been specifically decided by the management and the expenses to be deferred should be evaluated at the end of each financial year and the decision is made regarding the unamortized expenses and the way they are to be apportioned and spread over the product during the time to come. The expenses related to research and development is to be shown under the heading of 'Miscellaneous Expenditure' in the Balance Sheet.

1.6.9 ACCOUNTING STANDARD–9

This Accounting Standard exposes the recognition and treatment of revenue generated through the sale of goods or services, interest, dividend or royalty received on various types of investments made by the business organization. It is described under the standard as to what will be the accounting policy of the organization to recognize the revenue from various sources, how to treat it and how to show it into the books of accounts. The tax laws applicable to the income should also be followed as a policy matter.

1.6.10 ACCOUNTING STANDARD-10

The treatment of property, plant and equipment is explained through the Accounting Standard- 10. The way they are to be recognized when investment is made in them by the organization and their proper accounting treatment. The cost of the above said assets is recognized by the organization if the benefits arising from the assets will flow to the organization and will add to its value. The recognition of the assets can also be made through the depreciation policy of the organization through which depreciated value is transferred to its P&L Account and balance is shown in the Balance Sheet. This standard does not operate on assets which are being dealt with by some other Accounting Standard or the assets which are related to agriculture, mining of minerals, oils and natural gas, etc.

1.6.11 ACCOUNTING STANDARD -11 (Accounting Treatment for Effects of Changes in Foreign Exchange Rates)

The main objective of AS-11 is to determine the financial effect of transactions relating to foreign exchange and deals with principles for its determination along with the accounting treatment of foreign exchange transactions to be included in statement of finances of foreign branches. The reporting and recognition principle in relation to foreign exchange transactions is stated as initial recognition, any change in exchange rate, differences in exchange rate in terms of money and forward exchange contracts, all such details are required to be disclosed. Any amount of exchange differentials which forms a part of net profit and loss should be disclosed along with any adjustment in the book value of fixed asset. Other issues which are required to be mentioned in the financial statements includes, changes in financial statements of operating and non-operating foreign operations, effect of tax on differences in foreign exchange and sale of foreign operations that are non-operating in nature, etc.

1.6.12 ACCOUNTING STANDARD -12 (Accounting treatment for Government Grants)

Introduction: This AS was made applicable from the period beginning from on and after 1-4-1994. This AS doesn't deal with the following:

- Consequences arising from changes in prices that have significant effect in financial statement.
- Welfare other than government aids.
- Involvement of government having possession of the enterprise.

Definitions:

A. **Government:** It refers to executive, administrative authority and similar other bodies either at local, national, or international level.

B. **Government Grant:** It is an aid bestowed concurrent to past or future with necessary circumstances to an enterprise either in cash or in kind. It excludes transactions with government which cannot be separated from day to day functioning of the businesses.

Proceeds by an enterprise of government grant is requisite for presentation of financial statements for appropriate accounting method and for reporting whether an enterprise has been benefitted from such

grant or not and due to this financial statements of preceding period and those of other enterprise's can be contrasted.

Accounting Treatment of Government Grants: For accounting treatment of Government grants, normally two approaches may be followed: Capital Approach and Income Approach.

- Capital Approach: regards grants as a part of stockholder funds. Most of the government's grants are provided with regard to overall speculation in an enterprise or by way of beneficiation towards its total outlay in the form of capital and no assumption will be required in case of such grants and therefore ascribable directly to shareholders funds. These grants are separately categorised as:

<u>Treatment of grant as proportion of total capital in business</u>: Such grant should be considered at their nominal value or cost of acquisition as they are provided at privileged rate.

<u>Treatment of grants for specific fixed assets</u>: When an organization received such grants in relation to purchase of fixed assets then it will be better for organization to acquire such assets. Acquisition depends upon factors such as: asset type, location of asset and acquisition period. There are two methods for recognition of such grants:

  - Gross Value = Purchase Price – Grant received for such asset from government. It implies that grant will be treated as depreciation to be shown in Profit and Loss Account.
  - Here gross value will be assumed as deferred income in financial statements and in Profit and Loss Account charged as deprecation.

- **Income Approach**: This approach regards grants as income of one or more periods. Such income is deducted from expenses in the Profit and Loss Account. e.g. electricity rebates.

1.6.13 ACCOUNTING STANDARD – 13 (Accounting treatment for Investments)

There could be two types of investments; long-term investments; which are held for the purpose of regular income as well as capital appreciation and short-term investments; the purpose behind their holding is liquidity. The Accounting Standard-13 deals with the accounting treatment of such investments on the basis of fair value and market value of the investments. It is further mentioned that the cost of investment should comprise of price, brokerage, duties and taxes paid in relation to the investment. Further, the organization can sell the investment partially or completely depending upon its requirements. Disclosure is required to be made in respect of policies used to ascertain the carrying value, profit or loss emerging on account of sale of current and long-term investments, main reduction on account of possession of property, investment and refund of income and amount of disposal.

1.6.14 ACCOUNTING STANDARD – 14 (Accounting treatment for Amalgamations)

Amalgamation refers to the process of uniting two or more business organizations. It can either be in nature of purchase or in nature of merger. Amalgamation is said to be in the nature of merger if mandatory five conditions stated under the Act have to be complied with and if any of the said

conditions is not fulfilled then it will be said be amalgamations in the nature of purchase. Different methods like, Pooling of Interest Method and Purchase Method are available for accounting of amalgamations. The main objective of this AS is to show treatment of combining financial reports of the enterprise and to show resultant goodwill or any reserve arising thereof. In case of amalgamation in the nature of merger the balance visible in the financial statement of the transferor company is shown as a cumulative amount correspondingly reflecting in statements of transferee Company and at some unspecified time passed to general reserve, if any. In case of combination being purchase in nature, the leftover of gain and loss account clear in statements of finance of conqueror company will loses its worth. It is further mentioned in the standard that the name and nature of amalgamating companies along with the effective date and method used in its treatment should be properly disclosed in the financial statements.

1.6.15 ACCOUNTING STANDARD -15 (Accounting for Retirement Benefits in the Financial Statements of Employers)

Accounting Standard-15 deals with the accounting treatment which is required to be made in the financial statements pertaining to retirement benefits given by a concern to its employees and the other related services like provident fund, gratuity, leave encashment, post retirement health and welfare schemes, etc. It is applicable to all accounting periods starting from 1-4-1995 and thereafter. The contribution payable in respect of provident fund and other contribution schemes should separately be disclosed in Profit & Loss Account while; for gratuity and other schemes, the reporting depends upon the scheme selected by the employer. The disclosure of retirement benefit costs should be made in order to comply with the legal formalities.

1.6.16 ACCOUNTING STANDARD – 16 (Borrowing Costs)

The Accounting Standard-16 is applicable on all accounting periods starting from 1-4-2000 and thereafter. It describes the accounting treatment to be made in books of accounts relating to the borrowing costs. Borrowing costs are the costs which comprise of interest charges, discount on debentures, exchange differentials and lease finance charge, etc. The borrowing cost must be capitalized if it fulfills certain conditions laid down in the Act or if it is a component of cost of qualifying assets. The disclosure is required to be made in respect of accounting policy opted in case of borrowing cost and the amount capitalized during the period.

1.6.17 ACCOUNTING STANDARD-17 (Segment Reporting)

Accounting Standard-17 is applicable on all accounting periods starting from or after 1-4-2001 and applies to all listed companies having turnover more than Rs. 50 crore. It defines the reporting relating to the segment in financial statements of the business. It can be a business segment or geographical segment but along with this, it must be a reportable segment. “Reportable segment is a business segment or a geographical segment identified on the basis of foregoing definitions for which segment information is required to be disclosed by this Standard”. A segment is considered to be reportable if it fulfills the certain terms and conditions laid down for the same. For effective reporting same accounting policies

should be opted by the concerned segment as that of whole enterprise. Disclosure is required to be made in respect of:

- Accounting policies adopted by the segment
- Profit/loss
- Value of assets of each segment
- Amount of liabilities
- Cost associated with the purchase of an asset during the period
- Amount of depreciation and amortization charged for the assets of segment
- Amount of non-cash expenses that form part of expenses of segment and were deducted to calculate the performance of segment.
- Segment reporting with different location of assets and customers
- Total cost incurred for procurement of assets of segment for each geographical segment

1.6.18 ACCOUNTING STANDARD-18 (Related Party Disclosures)

This AS is related to all those organizations whose shares or debentures are listed in stock exchange or whose turnover exceeds Rs. 50 crore. It guides as to how to reveal associated party disclosure transactions in set of financial statements. An entity which is directly or indirectly by its mediators controls and is controlled or is under the common control of reporting institutions. Say for an example Company A has 50% of shares in Company B whereas Company B has 50% stake in Company C; Now if (1) A controls B directly and B controls C directly then it can be said that A controls C indirectly because B is the subsidiary of A, C is the subordinate of B and thus, C is also a subordinate of A by indirect control. (2) A controls B directly; A & B is combined control C implying indirect control through two intermediaries. If the reporting organization has a subsidiary or joint venture or someone who has more than 20% of voting power in the reporting enterprise or co-venturers in respect of which reporting organization is a joint venture or an associate are known as related party. Control means controlling more than 50% of voting power or substantial interest implying greater than or equal to 20% of voting power. By virtue of capacity of director doesn't give everyone, a power planning, directing and controlling. Whole time director is not a Key Managerial Position (KMP), but he can be a KMP if he is vested with planning, directing and controlling functions. Disclosure is required when no transactions have been done with related party: name and nature of relationship with such party have to be disclosed. When there are transactions with associated party: name and nature of relationship with associated party, nature of transactions such as sale or purchase of asset, loan given or taken, any additional information required to understand the transactions, amount due on the balance sheet date from the related party, any amount receivable during the year, any provision set aside for bad debts relating to related parties will have to be disclosed.

1.6.19 ACCOUNTING STANDARD – 19 (Accounting for Leases)

Accounting Standard-19 deals with the treatment of the assets transferred under financial lease. The financial lease is a contract between two parties- lessor and lessee where lessor is the landlord of the asset and allows lessee to use the asset by paying a lease rental which is an income for lessor and an expense for lessee. The ownership of the asset may also be transferred to lessee on the payment of last installment including other dues. But under the operating lease (short-term) the ownership of the asset remains with the lessor only and is returned back to him after the expiry of the contract. The depreciation charged, expenses incurred and value of the asset to be shown in the accounts is explained under the standard.

1.6.20 ACCOUNTING STANDARD – 20 (Earning Per Share)

This AS deals with disclosure requirement that has to be complied by every enterprise and was made effective from a period on or after 1.4.2001 and is applied to all entities whose equity shares are/ will be listed in some stock exchange. This AS facilitates comparative study of the financial statements of various such companies. This AS deals with disclosure requirement relating to basic and diluted EPS where as basic EPS is applicable to all enterprises while diluted for level 1 enterprise. How much net profit an enterprise earned per component i.e. per equity share is called as EPS. An institution is required to unveil both basic as well as diluted EPS in the financial statements of an institution even if the amount so calculated is negative.

Basic EPS formula: **Net profit available to equity shareholders ÷ Average number of outstanding equity shares.**

Diluted EPS is calculated when debentures and preference shares are convertible**.** For calculation of diluted EPS, adjustments are needed to be done for the net profit and loss pertaining to the equity shareholders (present and prospective). An enterprise while calculating basic as well as diluted EPS should disclose in its financial statements any net profit and loss earned during the period, prior period items and change in accounting policies excluding tax expense. The amount of face value of shares used in numerator while calculating basic and watery EPS should reconcile with the amount used in denominator while calculating the average no of shares outstanding.

1.6.21 ACCOUNTING STANDARD – 21(Consolidated Financial Statements)

This AS was commenced from a period on or after 1.4.2001 and thus, prescribes the basic principle for consolidation of accounts. This AS is not applicable if there is temporary control by parent company or there are long term boundaries for funds transfer. **Parent and subsidiary is one** who exercise direct control over its subsidiaries and subsidiary is one to whom controlling is being done by parent company. A subsidiary can be a company, firm, or a proprietor. A company can have either group or separate financial statements. If an activity of holding and subsidiary companies are different then consolidation of financial statements can be done. Following points is required to be disclosed: full list of subordination, Share of possession interest, characteristic and extent of association between parent and subsidiaries, varying accounting procedures to be made in representation of financial statements.

1.6.22 ACCOUNTING STANDARD – 22 (Accounting for Taxes on Income)

Any tax which is levied on income in India or outside India. Suppose an Indian enterprise and Indian enterprise has a branch in US now the branch in US is basically a resident in US and earning some income there and such income earned in US is taxable in US itself and that income isn't taxable in India. If an Indian enterprise has any branch outside India it is subjected to be taxed by any other government itself. This AS is applicable to all enterprises that are covered under the scope of this standard. Timing differences: depreciation cannot be done beyond the cost of asset, so the maximum depreciation that can be allowed is the cost. Those expenses subject to 43B which are allowed as deductions from taxable income only on payment basis they are not allowed as deduction on accrual basis. Recognition of deferred tax: There are two types of deferred taxes on income which is to be recognized: Delayed tax liability and Delayed tax asset: in order to check for prudence there should always exist a reasonable certainty of future profit which tax may be postponed to the extent to which an enterprise believes that today it has no reason to believe that it will be making loss in future is sufficient to establish reasonable certainty of future profits. Following are required to be disclosed: DTA and DTL distinctly to be present in balance sheet from other assets and liabilities. For differences in time arising during period of tax holiday but reversing after period of tax holiday should be taken for DTA/DTL is to be disclosed.

1.6.23 ACCOUNTING STANDARD – 23(Accounting for Investment in Associates in Consolidated Financial Statements)

This AS deals with adopting method of equity in combined statement of finances and not applicable to those enterprises preparing separate statement of finances. The objectives of the standard are to set forth the rules and strategy in relation to consolidate financial statements along with consequence of investment. There are two exceptions to equity method: If there is temporary sufficient influence and if there is a long-term restriction on transfer of funds. **Discontinuation of equity method:** equity method will be discontinued when significant influence is ceased then investment is shown according to AS-13 or when there are separate financial statements. When equity method used is of temporary nature or there are restrictions in transfer of funds. **Procedure of equity method:** when investment is greater than net asset then the difference will be transferred to goodwill and if investment is less than net asset then distinction is shown as capital reserve. Deduct the income earned from the value of investment. **Disclosure:** is required for the following: There must be complete acquisition of investment. Investment should be acquired with the intention of its subsequent disposition. Any contingencies and events that will occur after the date of balance sheet must be disclosed. Any long-term investment used must be disclosed separately in consolidated financial statements.

1.6.24 ACCOUNTING STANDARD – 24 (Discontinuing Operations)

This AS brings out layered format of presentation of information regarding continuing and discontinuing operations in financial statements. It gives out the manner in which the results of operations can be presented by segregating the results for what is going to be continued and the results of what is not likely to be continued. All that happens infrequently are not discontinuing operations but discontinuing operations do happen infrequently. Following are the situations where an enterprise is forced to make disclosure in the financial statements about discontinue of its operations:

- Binding sale agreement: Each party becomes obligated to another and parties are committed to each other and include performance in terms of movement of resources from one side in consideration flow from another side.
- For BODs or similar governing body, there is an approval of formal plan of action in addition to announcement of plan to the various users of accounting financial statements.
- Financial and investing activities of discontinuing operations.
- When disposal takes place: profit or loss on discarding of asset attributable to closing down the operation in form of pre-tax, tax expense and post-tax should be disclosed.
- Binding sale agreement takes place: means you have a price or range of prices, the period in which it takes place, carrying amounts of assets disposed or liability that will be settled.

From period to period whatever changes are taking place in the discontinuing operations that need to be disclosed. Any change in price, timing and amount of cash flows, regulatory requirement may be needed or in some cases of binding sale agreement may be cancelled. There may be more than one discontinuing operations.

1.6.25 ACCOUNTING STANDARD – 25 (Interim Financial Reporting)

Only listed corporations are supposed to prepare interim financial reports in their financial statements and for unlisted companies it is voluntary to prepare interim reports. Any organization whose shares are listed in any recognized stock exchange has got the liability to report the quarterly financial results to the stock exchanges so that the investors who have invested in those companies gets the updated information regarding the financial analysis of that company. Declaring interim dividends, submitting report to banks, for amalgamation or absorption are some of the reasons for which unlisted companies prepare interim reports. The main objective of this AS is to comply with rules for recognition and measurement criteria of timely interim financial reports so that it can be beneficial for all the users of financial statements.

Recognition and Measurement criteria: If revenue during seasonal occurrence cannot be anticipated or deferred on yearly basis it can't be anticipated or deferred on interim basis. If revenue can be anticipated or deferred on yearly basis, it can be anticipated or anticipated on interim basis too. If any revenue has not been recorded for a year as it has not been accrue in that particular year then it cannot be recorded as such in its interim report. If cost cannot be anticipated or deferred on yearly basis then it cannot be anticipated or deferred on interim basis.

1.6.26 ACCOUNTING STANDARD – 26 (Intangible Assets)

This AS is applicable to all enterprises; however few intangible assets are excluded from the scope: Right to exploration of mineral oils, Intangible assets arising from insurance contracts, financial assets, forward exchange rates, WIP of construction contract. Goodwill arising on account of amalgamation covered under AS-14 and on consolidation, any other intangible asset which is covered specifically in another AS. When a tangible and intangible component co-exists in an asset, it is classified based on pre-dominant component. Control: controlling of an intangible asset is not easy to control. Control on

intangible assets stem from legally enforceable rights. Costs should be measured reliably. Actual cost can be measured on monetary terms and difficult for no-monetary in terms of considerations. On-monetary consideration arise in two ways: Assets exchanged: true value of assets given up. Exchange of securities: fair value of asset acquired or securities issued whichever is more clearly evident.

1.6.27 ACCOUNTING STANDARD – 27 (Financial Reporting of Interests in Joint Ventures)

Separate statement of finances has to be prepared regarding presentation of interest in joint venture. This Standard is compulsorily required for those enterprises that make consolidated statement of finances. Depending upon its form and structure, Joint venture may be of following forms: mutually controlled operations, assets and enterprises.

- **Contractual Arrangements:** a type of arrangement in which an investor has significant effect in the joint venture. Subsidiary of an enterprise can also be considered in it. Basically in this, controlling is done by two or more venturers who have direct control over an economic activity of an enterprise.
- **Jointly controlled operations:** every venture uses its resources to meet its objectives and therefore incur expenses and earn revenues. Jointly controlled operation is said to be take place when venturers jointly incur and distribute expenses and jointly earn revenues from its operating activities.
- **Jointly Controlled Assets:** assets are said to jointly control when the future economic benefits arising from such assets are jointly controlled by the enterprises.
- **Jointly Controlled Entities:** a form of joint venture where in any business, partnership is carried on joint basis and also includes venturers have complete control over the affairs of economic activity. Such entities have joint share in assets, jointly incurs liability and expenses and procure revenue .The entity can raise loan for useful purpose if such conditions prevails. Each transaction are recorded separately and recognised in the financial statements of ventures. An undertaking should put forth his interest except for a condition in which an interest is acquired for subsequent disposal and there are long-term restrictions in jointly controlled entity to be shown in consolidated financial statements. Following points need to be disclosed:
  - Nature and extent of share of contingent liability arose with regard to interest in joint venture.
  - Description of all joint ventures.
  - Aggregate amount of assets, liabilities, income and expenses.

1.6.28 ACCOUNTING STANDARD- 28(Impairment of Assets)

Impairment indicates loss in value of asset. Now AS-6 depreciation also talks about loss in value of asset but confined to three reasons such as wear and tear, afflictions of time, or change in technology. Any other reason such as physical damage to the asset is not covered by AS-6. Impairment will only be debited to P&L if there is an indicator for such impairment. Depreciation is a compulsory charge to profit and loss while impairment is not so. This AS is pertinent to all enterprises. Following assets are

outside the extent of this AS: Inventories, Investments, WIP of construction contracts Plan asset and Deferred Tax Asset recoverable value can be identified when it satisfies the following conditions: If net selling price of an asset cannot be identified on reasonable basis. If there is no cause to think that amount of an asset go beyond its remaining retail price. It will be very difficult to calculate individual assets as few of them will generate value in combination. For this it becomes necessary to have grouping of assets.

1.6.29 ACCOUNTING STANDARD – 29 (Provisions, Contingent Liabilities and Contingent Assets)

This AS was issued in the year 2003 and was applicable with effect from the year 2004. After the issue of AS 29 some provisions of AS-4 pertaining to liability were withdrawn. This AS deals with provision, a liability which is measured using substantial degree of estimation. Majority of items have been withdrawn from AS-4 and are put in AS-29. The main objective of this AS is to be familiar with appraisal and disclosure rules regarding provisions, contingent assets and contingent liabilities in the books of financial statements which will be of immense help to its users in making sound economic decision. Recognition of provision takes place if following conditions are satisfied: When an enterprise has obligations due to its past events. There will be requirement of economic benefits to pay liability arising on account of movement of large amount of resources. Estimates of obligation can reliably be measured. There is no requirement for recognition of contingent liability by an enterprise. No recognition will be required for contingent asset and thus, they are not to be shown in the financial statements of an organization. Measurement of provision cannot be done by discounting the present value except for decommissioning, restoration and other liabilities. Estimates can be done by judgment of decision making bodies of an enterprise and annual reports. Disclosure is required for the following: Carrying amount occurring in the start and end of the period. Amount relating to charge against provision is to be disclosed. Nature and extent of obligation arising on balance sheet date.

1.6.30 ACCOUNTING STANDARD – 30 (Financial Instruments: Recognition and Measurement)

Financial instrument is an instrument in monetary terms that represents chunk of financial asset on one side and on the other the financial liability along with capital market instruments, BOE, promissory notes, drafts , etc. its main objective is to make rules for presentation of monetary asset and liability in financial statements of an organization. This is applicable to all classes of enterprises including commercial, business and industrial and thus was made applicable on 1-4-2011.

Accounting and Measurement of financial assets:

S. No.	Category of Financial Asset	Measurement at Initial Recognition	Measurement at subsequent reporting date	Impairment test
1	Fair value through profit & loss	Measured at fair value	At fair value	No
2	Available for Sale	Fair value plus transaction costs that are directly attributable to the acquisition	Change in fair value between two reporting dates is charged/ credited to a separate component of equity.	Yes

3	Hold till maturity	Fair value plus transaction costs that are directly attributable to the acquisition	At amortized cost by applying effective interest rate	Yes
4	Short-term Loans and receivables	At original invoice price		Yes
5	Financial assets, the fair value of which cannot be measured.	At cost	At cost	Yes

Measurement of Financial Liabilities:

S. No.	Nature of financial liability	Initial recognition	Subsequent measurement
1	Financial liabilities at fair value through profit & loss	At fair value	At Fair value
2	Includes derivative liability	Directly attributable transaction costs is charged to P & L	Whose fair value cannot be measured, at cost
3	Financial Guarantee	As per AS-29	Higher of- amount initially recognized or valuation as per AS-29
4	Other Financial liabilities	AT fair value	At amortized cost

1.6.31 ACCOUNTING STANDARD – 31(Financial Instruments: Presentation)

Applicability: This AS will be applicable to all classes of enterprises being it be a commercial, industrial or business except SME's and was commenced on or after 1-4-2011. The main purpose of this accounting standard is to draft rules and regulations regarding presentation of financial instrument as liability or equity, to offset financial assets and financial liability and compounding of financial instruments. This AS covers all types of financial instruments both recognized as well as unrecognized except:

- Interest in joint ventures, consolidation of financial statements, accounting for investment in associates and subsidiaries.
- Insurance contracts.
- Rights of employees covered under benefit plan.

Prescribed Presentation: According to this standard, following are required to be presented:

- Classification of instruments relating to debt and equity.
- Compound financial instruments.
- Treasure shares.
- Interest, dividends, gains and losses.

- Nullifying assets and liabilities.

1.6.32 ACCOUNTING STANDARD – 32 (Financial Instrument: Disclosure)

Disclosure means to disclose every transaction in the face of balance sheet or through showing it to the notes of accounts. It is mandatory for the users connected to the financial statements to disclose how much the company will be expected to face risk and thus, such information will assess the financial performance of a business enterprise or the amount, time period and improbability of expected cash flows This AS will be applicable to all classes of enterprises being it be a commercial, industrial or business except SME's and was commenced on or after 1-4-2011. The main aim of this standard is to disclose the following things in financial statements: Importance of financial mechanisms for measuring the financial position and recital of business enterprise. This AS covers all kinds of financial instruments both documented as well as unrecognized except:

- Interest in joint ventures, combination of financial statements, accounting for investment in associates and holdings.
- Insurance contracts.
- Rights of employees covered under benefit plan
- Financial instruments, contracts and obligations under shared payment.

1.7 The Companies (Indian Accounting Standard) Rules, 2015

- Every company must ensure that the accountants and auditors must comply with the Indian Accounting Standards (IAS) while preparing and auditing the financial statements of the concern.
- The following companies must comply with IAS for all accounting periods starting from 1-4-2016 and thereafter:
  - The company whose securities are listed on any stock exchange (within India or outside)
  - Companies having net worth of Rs. 500 crore or more
  - Non-listed companies having worth more than Rs. 250 crore but less than Rs. 500 crore
- NBFCs that are listed or in the process of getting listed under any stock exchange around the world.
- Holding, subsidiary or joint venture companies as stated under the Act.

1.8 Practice Questions

Short Answer Type Questions

1. Define the term Accounting Standard.
2. Suggest the role of Management in setting the Accounting Standards.
3. What do you mean by ASB?

4. What are the sets of accounting standards in India?
5. What according to you is the impairment of assets mean?
6. Name the accounting standards specified by Institute of chartered Accounts of India.
7. List the main features of AS-19.
8. State with reasons whether the following statement is true or false
   - For the purpose of valuation of inventory, retail method is not permissible.
   - AS-16 does not deal with actual or imputed cost of owner's equity.
   - Borrowing costs are actually usually excluded from cost of inventories.
9. Differentiate between
   - Standards and principles
   - Standards and concepts

Long Answer Type Questions

1. Explain the main objectives of Accounting Standards. Discuss in detail the procedure of setting Accounting Standards.
2. Enumerate the advantages of Accounting Standards and discuss the recognition and measurement criterion with respect to AS-25.
3. Discuss in detail the main provisions related to AS-2, AS-5 and AS-6.
4. Enlist the scope of setting Accounting Standards and explain in detail the rules regarding accounting standards 14, 17 and 21.
5. Explain about the disclosures of the following items (as stated with respect to IAS)
   - Accounting for investment in associates in consolidated financial statements.
   - Accounting for construction contracts.
   - Revenue recognition
   - Amalgamation
   - Segment reporting

Suggested Readings:

1. Jawahar Lal, "Accounting Theory", Taxman.
2. http://ebook.mca.gov.in/Childwindow1.aspx?pageid=25023&type=RU&ChildTitle=The%20Companies%20(Indian%20Accounting%20Standards)%20Rules,%202015
3. Vijay Kumar, M.P, "First Lesson on Accounting Standards", Snowwhite.

UNIT-2

S.No.	Particulars
2.1	Introduction to IFRS
2.2	Characteristics of IFRS
2.3	Objectives and Need of IFRS
2.4	Advantages and Importance of IFRS
2.5	Disadvantages of adopting the IFRS
2.6	The Role of Different Agencies
2.7	History of IFRS
2.8	International Financial Reporting Standards (IFRS) setting procedure
2.9	Convergence of Indian Accounting Standards with International Financial Reporting Standards (IFRS)
2.10	Background
2.11	Applicability of IFRS in India
2.12	Scope of IFRS
2.13	Problems in enforcement of IFRS
2.14	International Accounting Standards Committee (IASC)/ International Accounting Standard Board (IASB)
2.15	Role of IASB
2.16	Objectives of IASB
2.17	Financial Accounting Standards Board (FASB)
2.18	FASB Pronouncements
2.19	Harmonization in Accounting and Reporting
2.20	Need for Harmonization
2.21	Factors Leading to Harmonization
2.22	Harmonization in Accounting System of India
2.23	Advantage of Harmonization
2.24	Problems in Harmonization
2.25	Suggestions for increasing harmonization
2.26	Recommendations of the advisory group report on accounting and auditing (JANUARY 2001) (RBI)
2.27	International Federation of Accounting Committee (IFAC)
2.28	Objectives of IFAC
2.29	Practice Questions

Objectives of the Unit:

After completing the unit, you will be able:

- To understand the objectives, merits and demerits of IFRS
- To know the role of different parties, history and applicability of IFRS in India
- To know the role of various agencies like IASB, IASC, FASB, IFAC in standard setting
- To be aware of the concept of harmonization of Accounting Standards, its advantages, problems, and suggestions for improving it.

2.1 INTRODUCTION TO IFRS

Globalization and removal of international trade barriers have emphasized on the necessity of a single set of reliable and comprehensible accounting information reporting standards. The diverse accounting methods used in various countries create conflicts and confusion for the users of financial reports due to different treatment and presentation of similar fundamental transactions. This conflicting treatment and confusion constructs capital markets inefficient at global level. Thus, the need for same set of internationally accepted accounting and financial principles has encouraged various nations to follow convergence and adoption of national financial reporting standards with IFRS (International Financial Reporting Standards).

It can be defined as a comprehensive, specific class of accounting standards and the interpretations which are used in the treatment and preparation of accounting and financial statements. IFRS are known as "principles-based standards" with greater emphasis on understanding and judgment, instead of reliance on specific "bright-lines." IFRS gained considerable momentum globally including India. Various companies of different countries have adopted IFRS or trying to adopt the international reporting standards.

International Financial Reporting Standards (IFRS) is derived by an autonomous, nonprofit organization which is International Accounting Standards Board (IASB) and IFRS Foundation. It is a set of accounting standards which helps businesses to report their financial information using the same rules i.e. without manipulating the transactions, there is harmonization in the financial reporting of all companies which are using IFRS, because IFRS makes accounts of the company more understandable and facilitates comparability at international level. IFRS provide a common language for company affairs globally, so accounts of one company can be easily understand by other companies at national or international level.

IFRS provide a global framework and guidelines for reporting of financial statements, instead of setting the rules for accounting treatment for a particular industry and gradually converging the national accounting reporting standards of different countries. Using a same type of accounting standards will

make simpler the accounting methods of the organizations throughout and especially important for multinational companies.

2.2 Characteristics of IFRS

IFRS are used as an endeavour to harmonize accounting globally for the presentation and preparation of accounting statements easier, understandable and comparable. The basic features of IFRS are as follow:

- IFRS have a specific structure as they establish rules and guidelines for the accounting transactions.
- IFRS maintain stability and transparency throughout the financial world.
- IFRS influence the ways of reporting the financial statements.
- They provide a common set of accounting principles for all corporations all over the world.
- They are issued by IASB and maintained by the IFRS Foundation.
- IFRS are principle based standards and not mandatory
- IFRS do not set down a particular layout for the statement of financial position.
- Adoption of IFRS bring consistency and comparability between financial reports in the global economy
- Usually IFRS include principles and guidelines which are obligatory and having equal weight.
- These are based on going concern concept.
- IFRS bring consistency in presentation and analysis of financial statements.

2.3 Objectives and Need of IFRS

IFRS are set of rules for reporting the accounting transactions in same manner worldwide. Their principal objectives are:

To bring harmony: - The basic objective of IFRS is to bring synchronization in accounting transactions throughout the world so that financial statements may become understandable, transparent and comparable. International reporting standards will assist in trading and increasing economic development as well as the user of financial statements will be capable to analyze the financial statements of a company which are prepared using same set of accounting standards.

High quality standards: - The aim of IFRS is to develop a same set of precise, comprehensible, enforceable and internationally accepted accounting and reporting standards based on evidently expressed principles.

To make economic decisions: - These standards help investors to formulate investment choice and other members of the capital markets globally and also help in taking economic decisions using IFRS as they are based on same set of accounting and reporting principles.

Precise interpretation: - With the help of IFRS, the objective of accounting the analogous transactions and events in same way can be achieved and rigorous interpretation must be insisting. Otherwise, it’s not

feasible to attain the objective of comparability and transparency of the statements. For example, in mathematics, 1+1= 2 always; but in accounts a figure i.e. Profit or loss have different meanings**,** depends upon the subjective judgment of the accountant. It is important to prepare financial reports on the basis of IFRS so that explanations are given to make correct decisions.

Relevance: It makes financial statements more relevant for the users because they can easily understand the accounting treatments of various transactions.

Realistic representation: With the help of IFRS it is easier to make financial statements complete and unbiased.

Comparability: Anyone can easily compare the financial statements for more than one period of same company or two or more companies of same industry or other industries and make right decisions timely.

Verifiability: Different users of financial statements could make the similar assessment based on the accounting information, but it is not necessary to reach on an inclusive agreement.

Figure: Objectives of IFRS

Timeliness: Historical information quickly become out of date. But with the use of IFRS information is timely available to users.

Understandability: Clear and concise presentation of information is the key objective of using IFRS so that it may be understandable to users.

2.4 Advantages and Importance of IFRS

Because the corporate world has become strictly conscientious, in its trade and financial rules and the organizations compete for investors globally. The expansion of International Financial Reporting Standards (IFRS) helps by providing guidelines for reporting financial transactions. These standards are based on one accounting language company-wide which benefit to stakeholders, improve the corporate governance and together with increased free flow of capital throughout the world. Many countries have moved towards the IFRS, while other countries are in the process of adoption and convergence of these standards. The worldwide acceptability of these standards have addressed many accounting issues, but also created many problems. There are some advantages of adopting IFRS:

- Greater and Global Comparability
- High Quality and transparency
- Increase in international transactions and investments:
- Understand ability
- Easy Listing on international stock exchange
- Flexibility
- Beneficial to new and small investors
- Reduced cost
- Reduced risk
- Determine need of the users
- Consistent Financial Statement Format
- Improve business performance

Greater and Global Comparability

Generally multinational companies use generally accepted accounting principal (GAAP) of that particular country in which they are located. Therefore, comparison of financial statements of two or more differently located companies becomes difficult. But, with the adoption of same set of accounting standard, comparison of accounting and financial statement becomes easy and more accurate. This comparability helps investors to better determine where to invest or not.

High Quality and transparency

IFRS are based on sound principles rather than set of laws as they always advance the worth and lucidity of the financial statement. Whereas rule based standards may be benefitted to some companies in one period and worse in another period. IFRS ensures the complete, relevant, accurate picture of financial transactions and bring transparency by increase the quality of financial information. It reduces the scope of manipulation.

Increase in international transactions and investment

Adoption of IFRS develops the faith between the investors and investees, buyer and sellers, etc and enhance the reliance of global stakeholders. The foreign investor can simply belief on the financial statement of other company and invest because the financial transactions and results are based on the single global language. IFRS assist the process of mergers and acquisition at international financial markets as these are based on a unified set of principles.

Understandability

All users and investors have the understanding the accounting data whether it is related to one country or another. Using the same guidelines under IFRS, investors better understand the investment opportunities at globally.

Easy Listing on international stock exchange

The organizations which are using national accounting standard have to face problems in listing their stocks at foreign stock exchange. With the adoption of IFRS, the organizations having same accounting procedures make the task of listing stocks on cross border stock exchange easier.

Flexibility

IFRS are based on principles which mean each standard has to arrive at a rational valuation and different ways to complete assignments. This gives freedom to the organizations to adopt IFRS to their precise situation; so that, the financial statements might be read more easily.

Beneficial to investors

The IFRS are helpful for new and small investors by making greater financial and operational transparency and, as a result, make better fact-based investment decisions. IFRS promise to reduce risk for the investors from professionals as they will not be able to take advantage because the harmonization and simple to understand nature of financial statements.

Reduced cost

The use of a single trusted accounting language and high quality standards lower international reporting costs. Adoption of IFRS also reduces the firms cost of equity capital as the firm is capable to hoist capital from international markets at lesser cost because it creates trust in the mind of investors.

Reduced risk

IFRS provide economic **efficiency** by reducing the threat for investors from trading and owning the shares and also help investors to identify opportunity by providing higher quality information. IFRS also provide needed information to irrational investors and protect them to incorrect selection of investment due to lack of knowledge and understanding. It also reduced the information gap between the investors and regulators and makes financial market efficient around the world.

Determine need of the users

IFRS refer to a unified set of accounting and reporting standards issued by IASB used in different countries. These standards provide a common global accounting language to make financial statement transparent, understandable, and globally enforceable according to the need of its users. The IASB identifies the needs of different user and integrate their needs in to the standards with the help of investors, auditors and regulators enhance confidence of global stakeholders.

Consistent Financial Statement Format

IFRS provide a consistent format of financial statements which make financial statement easily comparable among various countries. The gross and net profit, operating income expenses are treated in same manner in the statements. Internationally, the balance sheet, the cash flows statement and the statement of retained earnings follow same formats. This helps the end user to evaluate the financial statements.

Improve business performance

With the adoption of IFRS, businesses will gain better knowledge into the operations and measure them more precisely. The companies will be able to improve tax planning processes, make faster decision about day-to-day operations, standardize and rationalize accounting systems lessen the risk and loss of penalties and conformity problems by getting quicker access to vast accounting and financial information.

2.5 Disadvantages of adopting the IFRS

The IFRS have numerous benefits but are having some shortcomings also due to lack of knowledge, higher transition cost different regional rules , etc. Also, the adoption of IFRS may create many challenges at certain stages of implementation such as:

- Increased cost
- It leads to manipulation.
- Not globally accepted.
- Subjectivity
- Lack of comparability and inconsistency

Increased cost

Adoption of IFRS increases the financial burden of small companies as they have not enough resources to implement the changes. If small companies adopt the IFRS they need trained staff or hire the outside consultant which increase the cost unnecessarily.

It leads to manipulation

The weakness of IFRS is that they allow companies to utilize desired method and they can make profit manipulation. The companies are indulged in fraudulent practices by hiding their actual transactions. For example, a company can increase its current year's profit by altering the technique of inventory valuation because it is easy to justify the reasons for making such changes.

Not globally accepted

Many countries have not yet adopted the IFRS. They are in the process of convergence towards FRSs. So, the multinational companies have to face difficulties because they have to maintain two set of financial statement. Foreign companies operating in different countries have to prepare their financial statement by means of IFRS and a different set according to generally accepted principles of that country.

Subjectivity

The financial statements prepared using IFRS may distort the result if fair value concept is used in accounting the value of such asset because fair value concept increases the subjectivity in judging the value of assets.

Lack of comparability and consistency

The lack of industry related regulation creates space and inconsistencies in the IFRS and it **is** the cause for lack of comparability and lack of consistency. Also, GAAP provide more detailed information rather than IFRS. IFRS are more complicated and follow complex mechanism. That is why; companies are not much relying on IFRS for communicating their presentation to the financial markets. Furthermore, comparison of financial statements will be feasible if all organizations follow the same rules.

2.6 THE ROLE OF DIFFERENT AGENCIES

The role of different agencies in international accounting and reporting:

The Monitoring Board;

1. The IFRS Foundation;
2. The IASB;
3. The IFRS Advisory; and
4. The IFRS Interpretations Committee.

Monitoring Board

In January 2009, a resolution to increase the IFRS public responsibility was made by a screening board of public authorities in meeting of trustees in New Delhi, India. The prime objective of the Monitoring Board is to provide an official communication system between authorities of capital markets and the IFRS organization.

The monitoring board having IOSCO (International Organization of Securities Commissions), the EC (European Commission), the JFSA (Financial Services Agency of Japan), and the SEC (US Securities and Exchange Commission) as members help in promoting the public accountability of IFRS Foundation. The foundation of IFRS calls annual meeting of the members to certify and ensure the actions initiated by them in the promotion of provisions of the Accounting Standards as suggested to them and they are supposed to perform. In this way it controls the actions of the members. The Foundation's main objectives may be summarised as follows:

- To set high level of viable, enforceable, having instances of intelligence international standards with the help of IASB.
- To develop the ways and process of implementing the standards.
- To have suggestions/complaints from the countries for their organisations to have a better solution for the implementation of the standards.
- To develop a mechanism through which the GAAP or IFRS can be converted and implemented easily throughout the globe.

A team of 20 trusties is recruited and selected for the purpose for a period of 3 years to manage and control the execution of international accounting standards. Out of the total 20 trusties, six each are selected from Asia, Europe and North America regions and one each from Africa and South America.

The International Accounting Standards Board

It was constituted and started working in April 2001 as an autonomous body responsible for setting international accounting standards. It replaced the IASC which was set up in 1973 for the same purpose. The Board has full time members who are entrusted with the work of getting developed the standards, their evaluation, interpretations and publications, etc. The Board engages closely with various stakeholders such as financiers, market analysts, supervisors, industry leaders, accounting reporting standard setting bodies and the accounting professionals.

The Advisory Council of IFRS

The Advisory association is a recognized consultative council which work with IASB and the IFRS Foundation's trustees. It includes various delegates from different groups that are involved in the efforts of IASB. These delegates include financiers, market analysts and other stakeholders of financial statements along with policy makers, academician, assessors, regulators, professional accounting and financial bodies and accounting standard setting bodies. Trustees select and appoint the associate of the Advisory Council.

Generally three meetings of the committee are held in a year of two days each at London to have discussions on various issues arising from time to time due to changes which take place in the environment and may affect the structure, objectives or implementations of the standards.

The Interpretations Committee

Interpretations board is an interpretative committee formed by the International Accounting Standards Board which includes fourteen voting associates well equipped with professional skills selected and appointed by the Trustees from different economies. The role of the committee is to revaluate or making assessment regarding problems which may arise due to the changes made or suggested by reporting standards or Interpretation Board itself for the better implementation of the accounting standards.

2.7 History of IFRS

IFRS have their origination in Europe where it was tried to evolve such accounting standards which may be adopted by all the countries and having uniformity and comparability.

The chronology of various prime events in the development and convergence of IARS is given below:

In 1960s need arose for International reporting Standards.

In 1962, meeting of International Congress of Accountants held to encourage improvement of accounting and reporting standard globally.

In 1966 American Institute of Certified Public Accountants (AICPA) created a group to find out the variations among different standards.

After that first text book was published in the year 1973 on International Accounting and IASC is also formed to promote the acceptance of these standard globally.

In 1979, FASB created a task force including delegates of the Accounting Standards Board of United Kingdom, Accounting Standards Board of Canada and International Accounting Standards Committee (IASC) to develop the standards.

Then IASC issued 25 standards and tried to make these standards rigid rather than descriptive in 1987.

In 1994 FASB and IASC did efforts towards Collaborative Standard-Setting and then compared U.S. generally accepted accounting principles (GAAP) and International Accounting Standards Committee (IASC) Standards.

In 1998 worldwide adoption international financial accounting standards needed due to Asian financial crisis which was also supported by World Bank, IMF and G7 finance ministers.

In 2000s the tempo of Convergence of International Standards developed speedily due to the working efforts of FASB and IASB in the area of harmonisation of international standards.

In 2006 Financial Accounting Standards Board (FASB) and IASB Issued a Memorandum of Understanding (MoU) to described the following guidelines:

- Convergence of Accounting Standards could be accomplished by following a common set of precise quality standards
- The Boards should increase the quality of financial reporting instead of removing the disparity among standards.

In 2010 SEC issued a statement regarding current situation of convergence of international Accounting Standards which includes:

- Continue efforts for the convergence of U.S. GAAP and IFRS
- Summarize essential factors to assess IFRS through 2011
- Direct the staff to build and implement a apparent work plan

In 2011 FAF and FASB gave feedback on various issues about mission, authority, and process to the IFRS Foundation Trustees. Then FASB held meeting representatives of twenty national standards setting bodies of different countries and other professional bodies to discuss about key issues such as progress of technical projects, problems in the adoption of IFRS and post-implementation review process.

In 2013 International Financial Reporting Standards (IFRS) Foundation formed a Accounting Standards Advisory Forum (ASAF) to develop mutual aid among different standard setting bodies and to direct the IASB.

2.8 International Financial Reporting Standards (IFRS) setting procedure

IFRS are developed by due process i.e. an international consultation process that includes individuals and organizations from worldwide level. At different aspects of standard setting process, the trustees certify Compliance throughout the process. The following steps are defined as the vital requirements for standard setting process:

Setting up the Agenda: The International Accounting Standards Board (IASB) accomplishes an inclusive review to describe International Financial Reporting Standards (IFRS) and prepare its plan for the project. The board determines the need of the users that will be satisfied by work plan.

Research planning programme: International Accounting Standards Board (IASB) set up a working group to identify the issues and their possible solutions and decide the schedule, staff and necessary document required for standard-setting.

Development and Publication an Exposure Draft: It is the mandatory step for publically evaluation the draft in standard setting process. International Accounting Standards Board (IASB) set up a proposed standard and allows the public to comment on that draft within period of 120 days and then evaluates the comments to explore further improvements and amendments.

Figure: Process of setting up International Financial Reporting Standards (IFRS)

Develop and Publish the standard: IASB develops an IFRS after refining the exposure draft and publish it after reviewing by IFRIC. Now, an IFRS is issued.

Maintenance procedure: After the issue of standard, IASB conducts meeting of standard setters and other interested parties to understand the issues faced in implementation of the standard and tries to review and find out the plan for consistent application of standards.

Post-implementation Reviews: IASB carries research after standard is implemented to whether the objective of standard is achieved or measures to improve it.

2.9 CONVERGENCE OF INDIAN ACCOUNTING STANDARDS WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

It is not a new idea to adopt international applicability of accounting standards. First, the thought of convergence had occurred in the late 1950s due to economic integration after World War II and increase in international border capital flow. Presently, near around 120 nations use IFRS partially, and 90 of them fully adopt the IFRS regulations. But, United States has not yet adopted IFRS because US outlooks their GAAP as "gold standard".

The committee of the ICAI decides to adopt IFRS in July 2007 for all listed large-sized organizations which start their accounting periods on or later 1 April 2011. Ministry of Corporate Affairs with their consultative and stakeholders took charge for the convergence process of Indian Accounting Standards with International Financial Reporting Standards (IFRS) in India in G-20 commitment.

Consequently, 35 accounting standards, named Indian Accounting Standards, reported but not implemented. Then, 110+ nations including European Union (EU), New Zealand, Australia, China and Russia presently entail or authorize the adoption of IFRS. After that, Sri Lanka, Japan, Canada and Korea announced their intention to adopt International Financial Reporting Standards (IFRS) since 2011. Consequently United States of America (USA) also adopted IFRS from 2014.

In its recommendation to the Ministry of Corporate Affairs, the ICAI has planned the new implementation date as April 1, 2013 for Indian Accounting Standards. This convergence of IFRS revolutionized the whole Indian businesses scenario.

The foremost collision was observed in the method of assessment of organization's performance which includes revenue calculation, earnings assessment, management information and control system, accounting and reporting methods, valuation of procedures and strategies. It would lessen the cost of acquiring funds and remuneration of accountants and facilitate swift access to worldwide capital markets. Furthermore, this would also help the organizations to set objectives and goal based upon a global business environment, rather than an internal standpoint. It would reduce the need for numerous reports and consolidated financial statements and also filing financial statements in diverse stock exchanges.

This implementation would raise various issues and challenges to the businesses operations. The transition from Indian GAAP to IFRS is complicated because of differences which exist between IFRS and Local GAAPs. With 2011 was swiftly approaching, Indian companies and finance and accounting professionals would have to face a foremost change to accounting and financial reporting, such as developing a sound conceptual framework, use of true and fair value dimensions, consolidation of financial statements and off-balance-sheet financing.

2.10 Background

The IASB developed a common set of accounting reporting standards worldwide which are known as "International Financial Reporting Standards (IFRS)". In 2005 European Union (EU) made it compulsory to prepare consolidated financial statements in according with IFRS for all publicly traded concerns. In earlier 1990s, some European companies and Asian companies exercised International Accounting Standards (IAS) as an alternative for their respective GAAP. But, in 2005, European Union adopted IFRS legally.

In 2005, European Union legally adopted IFRS the very first time and other nations having developed capital markets had adopted and some of the countries are in the process of convergence of IFRS for reporting and accounting intentions. Several standards of IFRS are acknowledged by their old name i.e. International Accounting Standards (IAS) which have issued by the IASC between the year 1973 and 2000.

On the basis of the suggestions of centre group the convergence process of IFRS in India was started. The Ministry of Corporate Affairs (MCA) pronounced the process and schedule for convergence with IFRS with ICAI. Starting from April 1, 2011, organizations listed in National Stock Exchange (Nifty 50), Bombay Stock Exchange (Sensex 30), and organizations listed on foreign exchange and

organizations which are listed somewhere or not but having its net worth more than Rs one thousand crores to carry out the compatibility of Indian Generally Accepted Accounting Principles (GAAP) with IFRS.

2.11 APPLICABILITY OF IFRS IN INDIA

The application of Indian AS depends upon the listing status of a company and its net worth. The Ministry of Corporate Affairs (MCA) concentrated on phase wise adoption of IFRS in January 2015. After that In February 2016, MCA announced the Companies (Indian Accounting Standards) Rules, 2015 for the implementation of IFRS. Total 39 Indian AS have been notified till now. Different phases are given below:

Phase 1: On April 1, 2016, Mandatory Application

All listed and unlisted companies having net worth larger than or equal to Rs. five hundred crore

Phase II: On April 1, 2017, Mandatory Application

All listed or going to be listed companies whose net worth is larger than or equal to Rs. 250 crore but not greater than Rs. five hundred crore

Phase III: On April 1, 2018, Mandatory Application

All Banks, Insurance Companies and Non-banking financial corporations having net worth larger than or equal to Rs. five hundred crore

Phase IV: On April 1, 2019, Mandatory Application

All Non banking financial organizations having net worth larger than or equal to Rs. 250 crore but not greater than Rs. five hundred crore

Exemptions: Companies listed on small and medium scale enterprises (SMEs) and companies which are not included in above phases are exempted from adopting Ind AS.

2.12 Scope of IFRS

- IASB works with standard setters to promote IFRS which provide single rules of accounting worldwide.
- IFRS provide the disclosure, presentation and judgement of transaction in financial statements.
- IFRS are developed for reporting the financial statement of profit oriented enterprises.
- IFRS provide information to various stakeholders and users to make decisions.
- Every standard indicates its principles and objectives.

2.13 Problems in enforcement of IFRS

- Different tax laws and local standards create problems in adopting IFRS
- IFRS cannot be adopted without incorporating the disclosure rules.

- Enforcement of IFRS faces difficulties due to national standard setting bodies which have different rules.
- These is competition among different standard setting bodies like IASB, OECD, UN which create issues in enforcement of standards.
- Different corporate bodies create problems in adopting the IFRS.

2.14 INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE (IASC) / INTERNATIONAL ACCOUNTING STANDARD BOARD (IASB)

The IASC was incorporated in Delaware State, US on March, 2001 as non profit organisation. It is the parent corporation of IASB. IASB founded on 1 April 2001 in London, UK as an autonomous, accounting standard-setting body of the IFRS Foundation on the recommendations of the report "**Recommendations on Shaping IASC for the Future**". It was formerly known as Accounting Standards (IAS). It develops the IFRS and also promotes their uses and application. IASB has 13 full time members having one vote each and they were to be selected on the basis of experience and knowledge of standard setting and academic work.

2.15 Role of IASB

The IASB is responsible for all the technical matters of IFRS Foundation. The following are the responsibilities of IASB:

- To develop and publish the technical agenda carefully after consulting with standard setting bodies according to the requirement of trustees.
- To enforce the IFRS with interpretations and exposure drafts
- To approve the interpretations developed via IFRS interpretation committee.

2.16 Objectives of IASB

- To develop globally accepted principles which are transparent and comparable
- To maintain uniformity and comparability among various accounting standards.
- To guide and help in implementation of the standards.

2.17 Financial Accounting Standards Board (FASB)

FASB established as an autonomous, nonprofit organization in 1973 at Norwalk, Connecticut. It is a private sector institution established to set up international financial accounting and reporting standards for all public and private sector organizations as well as for nonprofit organizations that previously using the GAAP. FASB is an accounting standard setting body recognized by Securities and Exchange Commission, State Boards of Accountancy and the American Institute of CPAs (AICPA) that follows a transparent and comprehensive practice to develop, issue and promote the financial accounting standards. It also provides reliable information to different parties and investors related to financial

reports. FASB is supported by Financial Accounting Foundation (FAF) which also set up an independent, nonprofit organization in 1972 at Norwalk, Connecticut. FAF is also a private sector organization responsible for administration, supervision, and appointment of staff and financing of both FASB and the Governmental Accounting Standards Board (GASB).

Objectives

- FASB and GASB contribute to set up the high quality and comprehensive international financial accounting and reporting standards.
- FAF is responsible for promoting and supervision of autonomous and effective methods of standard setting.
- All bodies are responsible for educate and providing useful information to different users and investors.
- They also responsible for implementing the accounting and reporting standards.

2.18 FASB Pronouncements

FASB pronouncements defined as rules and guidelines for international financial accounting and reporting standards. Its pronouncements are component of the accounting framework which is recognized as Generally Accepted Accounting Principles (GAAP).

Its pronouncements include the following:

- Statements of financial accounting standards (SFAS or FAS)
- Statements of financial accounting concepts (SFAC)
- FASB Interpretations
- Technical bulletins
- Staff positions

Statements of financial accounting standards (SFAS)

A statement of financial accounting standards provides guidelines to deal with a particular accounting issue. SFAS are issued by the FASB, which is the prime financial and accounting standards setting body in US for GAAP.

These statements are addressed to those areas of accounting which need to variable elucidations, and which can further improved by reducing the alternatives available for reporting a monetary transaction. The statements concentrate on both broad and industry-specific areas transactions i.e. pension accounting. These statements make accounting statements more comparable and consistent.

Initially these standards issued in a free-standing format, so that a researcher is able to understand every applicable standard and can do reasonable subsequent changes in it. To reorganize the research process, all of these standards were codified into GAAP.

The some of the standards are controversial; since they change the reporting of profitability in some organizations as stock options and business combinations accounting treatment significantly changed in current year.

Any non-government organization that wants to audit its financial statements makes sure that it is in conformity with the relevant statements of financial accounting standards. Also, the SEBI makes it necessary for all publicly-held entities that they should be in conformity with these standards.

Statements of Financial Accounting Concepts (SFAC)

Concepts statements define the purpose and qualitative features to determine how any business transaction and event should be recognized and evaluate in financial reports. FASB creates and uses these statements in the amplification of accounting principles. These statements are also the part of GAAP.

Interpretations of FASB

It is an official document of the Financial Accounting Standards Board (FASB) which provides supplementary information regarding an old accounting standard. It is important explanatory which is considered as a part of GAAP.

2.19 HARMONIZATION IN ACCOUNTING AND REPORTING

Introduction

Harmonization is known as the process of fixing the limits to degree of variation to make the accounting practices more compatible and relevant. In simple words, it refers to adoption of a set of uniform practices in accounting system by establishing boundaries so that information can be done with ease.

2.20 Need for Harmonization

Necessity of harmonization is as follow:

- Harmonization brings excellencies in reporting financial statements.
- Harmonization makes financial reporting more reliable.
- Harmonization helps in timely and systematic analysis and thereby also helps in finding the performance of multinational companies situated in different countries.
- Comparison at domestic as well as international level becomes easier.
- It may help in economic development of a country.
- Harmonization ensures financial statements more reliable due to unification.
- No profit or no loss environment is created at international level when a set of similar standards are adopted by the countries.
- It helps in reducing differences in financial reporting methods all over the world.
- It helps in improving the access to international financial matters.

2.21 Factors Leading to Harmonization

To ensure stability in accounting that leads to harmonization of accounting standards. Major reasons to bring harmonization are as follow:

Comparability in financial statements: The methods of preparation of financial statements differ in each country. As a result, comparison at domestic and international level becomes complicated. A significant benefit of harmonization of international accounting and reporting standards is to enable comparability in financial statements.

Integration of different economies: Harmonization helps in integration of economies regionally, politically and economically. Developed nations can provide foreign help in terms of aids or capital to developing countries only if there is political and economic stability.

Emergence of MNCs: with the increasing demand of foreign capital by MNCs, harmonization of standards becomes essential. Unification of reporting and accounting standards within a specific limit helps in reducing costs directly or indirectly.

Integration of long term market at global level: only unified set of rules of capital market can satisfy global investors in terms of access of information. Diversity in accounting principles cannot fulfill the expectations of investors.

2.22 Harmonization in Accounting System of India

Since the previous decades of 20th century, there is a considerable economic development in several Asian regions together with India. With the change in Companies Act 2013, Government of India changed its policies on historical accounting system after 1991. Accounting methods and system, accounting objectives, stakeholder view, precision, historical accounting, revaluation, profit/loss of borrowing, capitalization to asset, and net realizable value of assets, goodwill, Government accounting, implementation of accrual basis, etc. are the various aspects which need equalization globally. Harmonization of financial accounting standards has become a demanding problem of conversation and dispute among various accounting professionals in India. IFRS fill the gaps of accounting pattern of different countries.

2.23 Advantage of Harmonization

International comparison: If all companies follow different accounting standards, global investors find it different to invest in different countries. Thus a combination of accounting system in an organized way may encourage investors to invest in international business by making comparison easier. The investment in international countries helps in growth of international business.

Benefits to developing countries: By adopting already existing accounting standards of other nations the developing countries may benefit in terms of cost and time. They would spend if they developed their own accounting standard due to lack of specialization.

Benefits to multinational companies: Harmonization benefits MNC in the following areas:-

(1) Investors are interested to invest in companies with similar standards as it increases reliability.

(2) Consolidated statements of both holding and subsidiaries companies can be formulated with case.

(3) Evaluation of performance of subordinate companies spread globally becomes easier and it also helps in timely decision making.

(4) Intercompany comparison becomes easier.

International credibility: When standards are well known, financial statements represent a fair view of the credibility of the company. This helps in increasing the amount of investment at lower cost as it enhance the confidence of the investors.

Investors' benefits: A uniform format of financial statements simplifies investors' investment decisions irrespective of companies' headquarter comparison of the financial reports becomes much more reliable as the information presented through reports is calculated using the same methods. It has also brought more investment opportunities for investors globally.

Specialization to international auditing firms: International firms doing auditing functions can specialize by auditing to a large number of firms over the world, if harmonization is followed by all countries. It also helps in reducing the costs for both the audit firms and company which buy the audit services.

Benefits to government of developing nation: Government can control the activities of MNCs situated in other countries. The MNCs will not be successful in hiding their transactions if the same practices followed in different nation.

Collection of taxes: Calculation and collection of taxes from MNCs become easier when uniform accounting practices will be followed by different countries.

2.24 Problems in Harmonization

Widen the gap between developed and developing nations: Their exist some social, economical and cultural gaps between developing and developed nations. This may cause problems in bringing harmonization in different accounting practices. Co-operation between accountants of different nations is necessary for recording the already existing divergence of standards.

National pride: Existence of provincialism focuses economies to accept those standards which are in accordance to the economic condition of their own country.

Limited resources of developing nations: Scarcity of resources of underdeveloped and developing nations poses problems to adopt the same set of standards as being followed by the developed nations.

Varying legal environment: Harmonization of legal system is a pre requisite for synchronization of accounting and reporting standards. Due to the prevalence of rigidity of enforcement rule, uniformity in laws across all nations is required for successful implementation of the harmonization policies.

Lack of skilled accountant: When harmonization takes place, the auditors and the accountants need to be trained as per international standards for preparation of the financial statements. This requires a greater need for new accounting software. As a result, the whole procedure becomes complicated, costly and time consuming.

2.25 Suggestions for increasing harmonization

IASC and IASB were formed to help in implementation of uniform accounting standards at international level. To bring harmony globally the suggestions are as follow:

1. IASC was formed in 1973 and was responsible for promoting the use and implementation of international accounting reporting standards. The penalties by IASC should be fixed if there is any default in implementation of the accounting standards.

2. Stock exchanges of every country must ensure that all listed companies should follow the same set of standards.

3. International standards should be followed in a country when they do not leave standards of their own. It is the duty of the government to ensure that there is no default in adopting the standards.

4. It should be ensured that accounting standard setting body of each country should be the member of IASC.

5. Where gaps exist between regions, IASC should try to narrow down these gaps. It should also focus on customized accounting standards for regions according to different requirements.

2.26 RECOMMENDATIONS OF THE ADVISORY GROUP REPORT ON ACCOUNTING AND AUDITING (JANUARY 2001) (RBI)

Harmonization of Different National Accounting Standards

1. The business practices, legal framework, fiscal policies, economic and social conditions are changed from nation to nation. Therefore, accounting standards adopted in preparation the financial statements are different. For example:

i. In some countries while doing the accounting treatments, authorized form of that transaction is given extra weightage; while other countries give priority to the matter of transaction.

ii. In some countries historical cost is measured more appropriately than fair current value.

iii. In some countries revaluation of assets are given importance.

iv. In some countries creditors' protection is given more importance rather than investors'/shareholders' interest.

v. In some countries, in accounting treatment, more focus is given on corporate tax and fiscal laws.

vi. Regulation related to the treatment of foreign exchange differences, borrowing costs, depreciation, amortization of intangible assets and investments valuation in some countries differ from other countries.

2. Globalization removed the barriers among different countries. Now, political boundaries have no meaning for the movement of capital and funds. Information Technology and communication developments accelerated the process of globalization. These developments created the requirement for harmonization in accounting and auditing practices.

3. The compilers of accounting statements are required to issue financial statements in compliance with GAAP, so that fair presentation of financial statements could be done.

4. The standard setting bodies of different countries have to serve the needs of their nations. Therefore, standards of different countries are developed to consider the economic, legal and cultural history and environment.

5. Recently, due to the Asian crisis the quality of accounting and auditing standards affected in many countries. The lack of transparency, harmonization of accounting is a issue in developing countries as well as in developed countries. So there is a need of harmonization in financial accounting standards arise to bring transparency in accounting of different countries.

6. Presently, International Forum on Accounting Development (IFAD) has been set up to raise Reporting and Auditing practices globally. These changes need a major support of different parties such as reporting entities, accounting professionals, regulators, Government and investors. They have to actively and willingly participate in the analysis of problems and implementation of the solutions.

7. The critical intention of general-purpose financial statements are to prepare them using a single framework using common measurement criteria to present fair and comprehensive view. This can be achieved by long-term efforts and include the following process:

i. Treatment according to national accounting standards and IAS should be same as the benchmark.

ii. All bodies should assist for a strong monitoring and supervision process for the implementation of national accounting standards.

2.27 INTERNATIONAL FEDERATION OF ACCOUNTING COMMITTEE (IFAC)

It is a global organization established in 1976. It's headquarter is at New York, United State. It was established to protect the interest of the public by helping to develop the accountancy profession globally. The countries of IFAC consist of 15 national representatives (one president, deputy president and two vice presidents).

2.28 Objectives of IFAC

1. To help in develop high quality statements for audit practices internationally
2. To help in developing the financial techniques for accounting purpose and after development, it also evaluates them
3. Training of accountants becomes mandatory so that they can understand the newly develop statements. Such training is provided by IFAC.

4. It helps in continuous improvements of audit quality.
5. It helps in providing quality information to stakeholders, investors and employees.
6. It helps in building trust and creating confidence in the profession
7. To organize the meeting of accountants after every five years globally
8. To help in developing the regional institutions.

2.29 Practice Questions

Short Answer Type Questions

1. Define by International Financial Reporting Standards (IFRS)?
2. Explain the structure of International Financial Reporting Standards (IFRS)?
3. Explain the features of International Financial Reporting Standards (IFRS)?
4. Discuss the need of International Financial Reporting Standards (IFRS)?
5. Write the process of setting the IFRS?
6. Explain the objectives of IASB?
7. Define harmonization?

Long Answer Type Questions

1. What do you mean by harmonization? Discuss the recommendations of the report of advisory committee on auditing and accounting.
2. Define harmonization. Is it necessary in preparing corporate report?
3. Discuss the arguments in favour of harmonization. Also explain the obstacle faced in the process of harmonization.
4. Write short notes on: (a) IFAC (b) IASC
5. Define the process of convergence and adoption of International Financial Reporting Standards (IFRS). Also explain the difference between two.
6. Write note on convergence of IFRS in India.
7. Write detailed note on IFRS. Also explain the role of different committees in setting up these standards.
8. What is difference between adoption and convergence of IFRS? Also discuss the challenges faced by the entities while adopting these standards.

Suggested Readings:

1. Jawahar Lal, “Accounting Theory”, Taxman.
2. Vijay Kumar, M.P, “First Lesson on Accounting Standards”, Snowwhite.
3. Glautier, H.W.E. And Undordown, B. “Accounting Theory and Practice” (Arnold Heinemann).

UNIT - 3

S.No.	Particulars
3.1	Introduction
3.2	Developments on Financial Reporting Objectives
3.2.1	Trueblood Report
3.2.2	Corporate Report
3.2.3	CICA's Stamp Report
3.2.4	IASB Conceptual Framework
3.2.5	FASB Conceptual Framework
3.3	Annual Corporate Report
3.4	Segment reporting
3.5	Interim financial reporting
3.6	Practice Questions

Objectives of the Unit

After going through this unit, you will be able to:

- Understand the concept of Financial Reporting and its objectives
- Know various reports given by different committees relating to Financial Reporting such as, Trueblood report, Corporate Report and Stamp Report, etc.
- Understand the IASB and FASB Conceptual Framework for Financial Reporting
- Familiar with the concept of segment reporting and interim reporting.

3.1 INTRODUCTION TO FINANCIAL REPORTING

Expansion of business form of organization from sole-proprietorship to corporation resulted in the emergence of financial reporting concept. The concept got relevance due to various factors such as inception of company form of organization, shift in the view from shareholders to stakeholders' concept, increase in competition, and surge in informational needs of users.

Financial reporting is the process of presenting the relevant financial information of the reporting entity to its diverse stakeholders such as investors, government, management and suppliers, etc. for the specific period of time. The end product of the accounting process is financial reporting that communicates about the financial performance and financial position of the financial entity during the financial year to its internal and external users.

Financial reporting includes:

- Financial statements
- Notes to financial statement

- Quarterly and annual reports
- Prospectus
- Management discussion and analysis

The first publication which attempted to formulate the objectives of financial statement was APB Statement No. 4 "Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises" in 1970 in USA.

Objective of financial statements are:

1. To present the financial statements in fair way and in conformity with GAAP.
2. Another objective is to furnish authentic particulars about assets and liabilities of an organization in other to assess its strength and weaknesses, indicate its funding and investing activities, assess its potential to fulfil its obligations.
3. To present authentic particulars about the variation in resource position as a result of profit-directed activities undertaken by enterprise in order to reveal its long term profitability, expected dividend return to investors, enterprise's potential to pay its creditors and suppliers, to provide information to management for planning and control, to furnish particulars useful for predicting the earning capability of the firm and to reveal other particulars relevant to users' needs.

Following are the qualitative objectives of financial accounting:

- Relevance means providing information which is more relevant or most likely to assist users in making rational decisions.
- Understandability means that information provided in the financial statement must be intelligible along with characteristics of being understandable to its users.
- Verifiability means the capability of measures to establish that particulars represent what it claims to represent or that the measurement method adopted is error free or unbiased.
- Neutrality means the financial information must be presented keeping in view the needs which is similar to users rather than specific needs of few users.
- Timeliness means that information must be communicated to its user for making decision before it loses its scope to affect decisions.
- Comparability implies that information must be comparable with the peers companies and with the previous year's information.
- Completeness means the reporting of all the information which reasonably attains the perquisite of other qualitative objectives.

3.2 DEVELOPMENTS ON FINANCIAL REPORTING OBJECTIVES:

Various accounting and professional bodies around the world have endeavoured to describe the financial statements and reporting along with its objectives which are essential for the establishment of accounting theory and practice.

3.2.1 Trueblood Report

In 1971, AICPA appointed a group to study upon the aims of financial statements under the chairmanship of Robert M Trueblood. The committee submitted its report in Oct, 1973 after considering the views of organizations, professional entities, residents, accounting associations- national as well as international. Interviews and meetings were held with executives representing various segments of business and with institutional and professional groups.

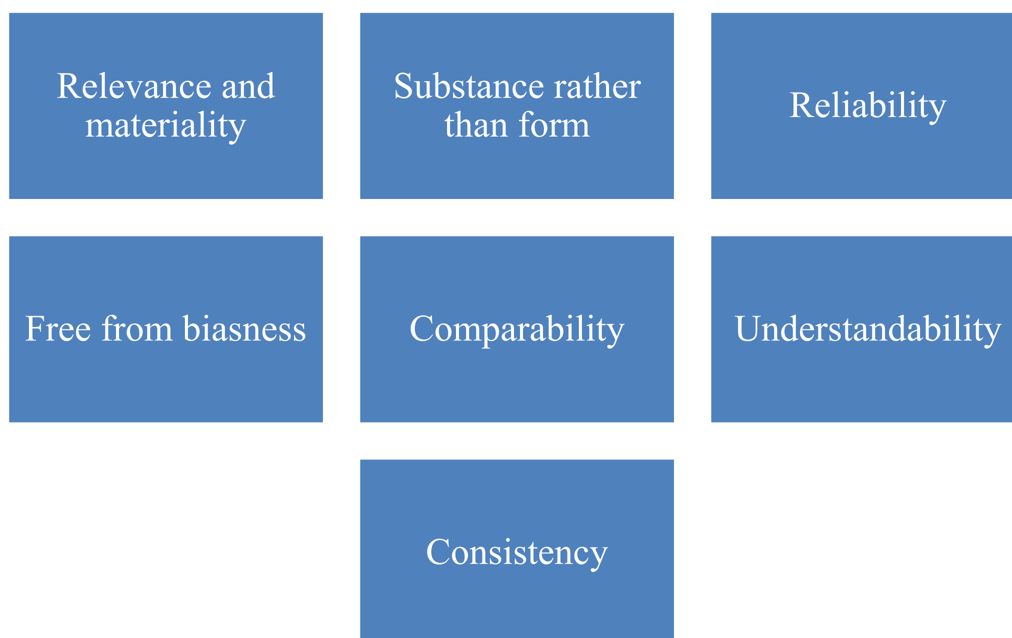
The Trueblood report identified the 12 objectives of financial reporting:

1. To furnish particulars for constructive economic decisions.
2. To assist users having limited access to information and who primarily lean on financial reporting as main document presenting organisation's economic activities.
3. To provide information of likely cash flows to investors and creditors in terms of amount, timing and ambiguity.
4. To furnish particulars useful for anticipating, differentiating and analysing earning power of an enterprise.
5. To provide information for ascertaining the management's capability to employ resources of organisation effectively in accomplishing its primary goal.
6. To provide factual or interpretive information which are subject to interpret, evaluate, predict or estimate by disclosing underlying assumption.
7. To furnish a statement of financial position which contains information regarding agreements and affairs that are fraction of incomplete earning cycles, reporting of variation between the historical cost and current values. It is helpful in predicting, differentiating and analysing the earning power of the enterprise.
8. To supply a statement of operating activities which contains information concerning net result of complete earning cycles and activities of enterprise resulted in noticeable progress to the completion of incomplete cycles. It is helpful in predicting, differentiating and analysing the earning power of the enterprise.
9. To supply a statement of financial activities that contains information on the factual aspect of transaction having or expected to have notable cash repercussions. It is helpful in predicting, differentiating and analysing the earning power of the enterprise.
10. To furnish particulars valuable for the anticipation process.

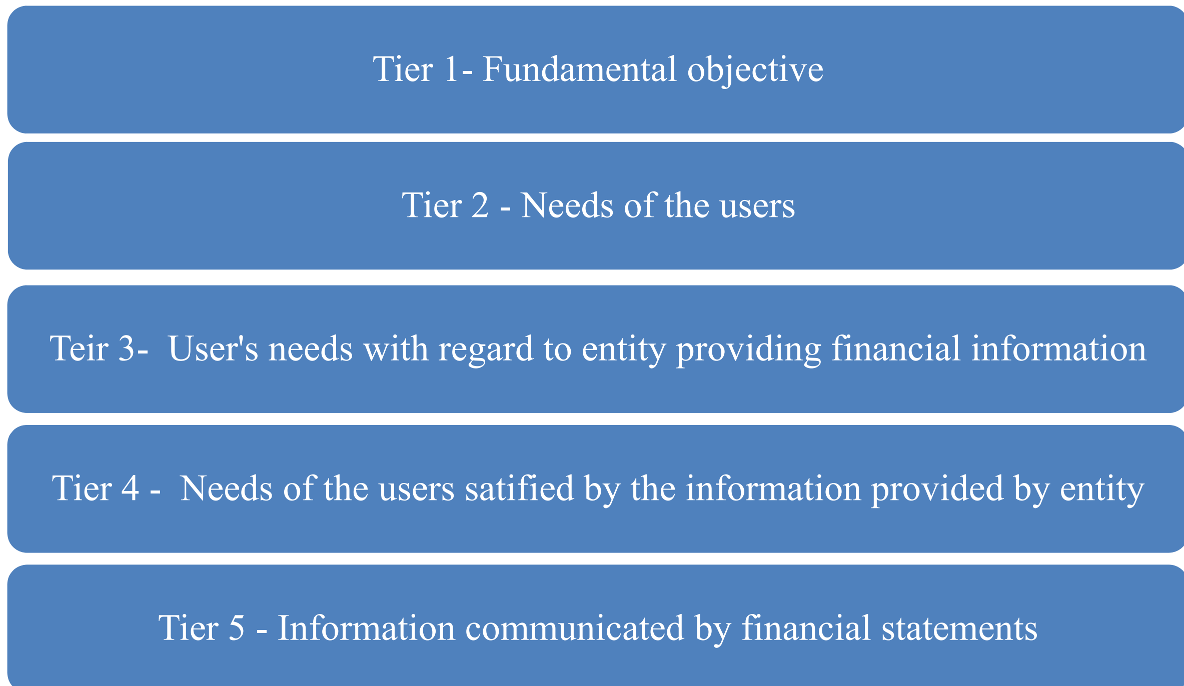
11. An objective of financial statements, in case of government and non-profit organisation is to supply particulars valuable for analysing the success of resource management in accomplishing enterprise's goal.
12. To provide information of an organisation's activities influencing society and the activities can be ascertained and computed.

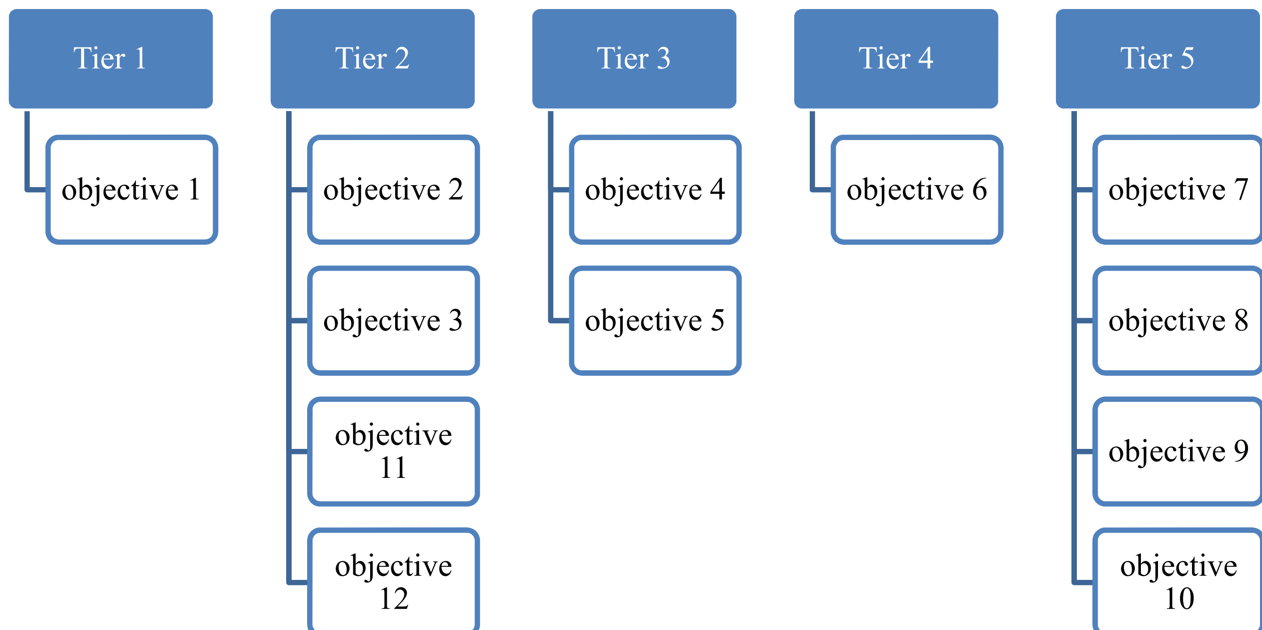
As per the Trueblood Report, the seven qualitative characteristics should be there in each financial statement as to fulfill the requirements of diverse users.

Qualitative Characteristics



Twelve statements of objectives presented by the Study Group's report can be categorized into five tiers as shown in figure.


Tier 1- Fundamental objective
Tier 2 - Needs of the users
Teir 3- User's needs with regard to entity providing financial information
Tier 4 - Needs of the users satified by the information provided by entity
Tier 5 - Information communicated by financial statements


Tier 1
objective 1
Tier 2
objective 2
objective 3
objective 11
objective 12
Tier 3
objective 4
objective 5
Tier 4
objective 6
Tier 5
objective 7
objective 8
objective 9
objective 10

3.2.2 Corporate Report

In 1976, the 'Corporate Report' titled discussion paper of the Institute of Chartered Accountant in England and Wales was published by the Accounting Standards Steering Committee. The paper focuses on the purview and purpose of:

- Financial reports in the published form
- Public accountability of reporting entities
- Financial reporting main element being working concepts
- Suitable ways of measuring and reporting the performance, situation and scenario of enterprise

The main findings of Corporate Report are:

1. The fundamental point of the Corporate report is that financial statements of economic entity should strive to satisfy the informational needs of its stakeholders.
2. Corporate report has fundamental objective that it should provide information valuable to those possessing fair rights to information. Information regarding economic measurement of resources and performance of the reporting entity.
3. Corporate report identified the list of users:
    - Equity holders group
    - Lenders group
    - Employees group
    - Analyst-adviser group
    - Suppliers group
    - Government and government authority
    - Public
4. Identified the need for additional measures of performance in corporate reports of entities. Such as:

i. Statement of Value Added

This statement shows how the value addition created by collective efforts of capital, management and employee is shared by those contributing to its creation. Value added is the wealth formed by the efforts of the reporting entity and its employee's. The statement will assist in evaluation of performance of the reporting enterprise.

ii. An report of Employment

This report indicates the size and composition of entity's workforce, contribution made and benefits earned by its employees. It helps in assessing the entity's performance in relation to community and society, evaluating performance, efficiency and objectives of management.

iii. **A statement showing money exchanges with government**

This statement shows the financial relationship or direct cash flow of money between the entity and the state indicating the degree of interdependence between the same.

iv. **A statement of transactions in foreign currency**

It shows the direct cash transactions of the enterprise amid the host country and abroad.

It helps users to ascertain the performance of the enterprise from the angle of society and the national interest. It provides information to assist in predicting the capacity of enterprise in making future cash payments and assessing its stability and vulnerability.

v. **Statement of future prospects**

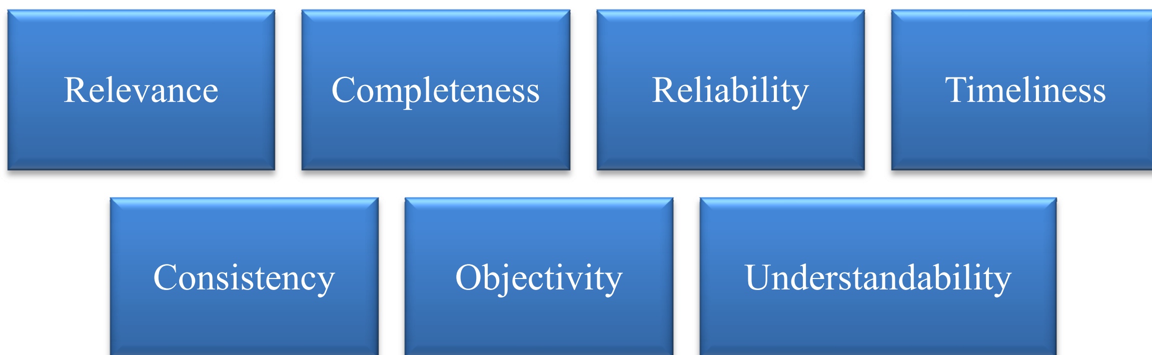
It shows the estimated future profits, employment and investment quantity. Few user groups such as investors, creditors and employees are more concerned with future prospects of the reporting entity and the statement provides the same and assists in judging the managerial performance.

vi. **Corporate objectives statement**

It shows the management philosophy and strategic targets of an entity. The management will help users to analyse conduct, competency and targets of management.

5. In order to fulfil the fundamental objective, corporate report should possess the following characteristics. They are:

Qualitative Characteristics



3.2.3 CICA's Stamp Report

A report entitles as "Corporate reporting- Its future evolution" was published by Canadian Institute of Chartered Accountants (CICA) in June 1980 and was written by Edward Stamp. The report is famously known as The Stamp Report 1980. It identifies the important objectives of company financial reporting:

1. To furnish information to equity and debt investors by the management should convey the success of the enterprise in attaining the goals of generating an acceptable conduct along with the exercise of its stewardship function.

2. To supply information to those who are in charge of taking investment decision in order to utilise scare resources efficiently.
3. To provide information to users in a form that minimises the ambiguity about the legality of the information and to facilitate them to make own evaluation of the risk connected with the company.
4. To establish standards regulating financial reporting in such a way that allows sufficient area for evolution and innovation as improvements become workable.
5. To develop according to the requirement of the users who have the ability of understanding the financial statements or otherwise, as per the needs of expert who will be called on to advice the unsophisticated users.

Accountability of the management, validity of the information, information regarding innovation and invention of the enterprise were the main area of the Stamp Report. The report also focused on the needs of sophisticated and unsophisticated users while recognizing the objectives of corporate financial reporting.

3.2.4 IASB Conceptual Framework

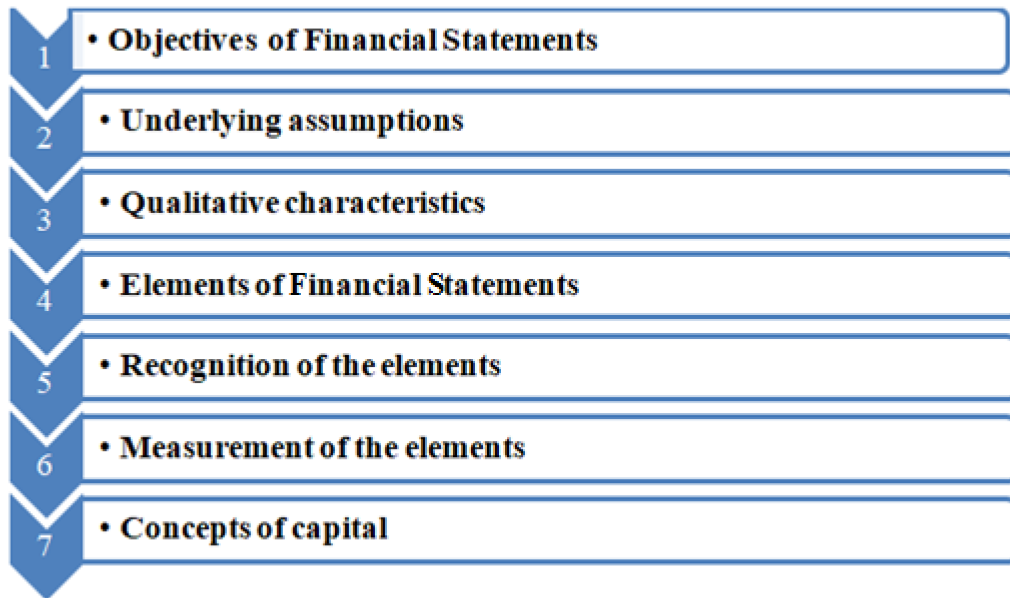
"Framework for the Preparation and Presentation of Financial Statements" was issued by IASB in 1989 that is commonly known as its conceptual framework.

The framework lays down the concepts and principles that direct the preparation and presentation of financial statements for financial statements users.

Framework attempts to assist the following parties:

1. It assists in applicability of international standards in the preparation of financial statements and in dealing with areas for which no guidelines are issued by an International Accounting Standard.
2. It helps auditor in making judgement about statements whether they conform to IFRS or not.
3. It helps users in interpreting the information provided by the financial statements which are organized in conformity with IFRS.
4. It assists those who are concerned with the working of IASB.

The framework constitutes seven sections:



I. Objective of Financial Statements

Financial statements must communicate the particulars regarding- financial position, financial performance and changes in financial position along with the supplementary notes and schedules to its various users.

II. Underlying assumptions

Under the ISAB framework, the fundamental assumptions are accrual basis and going concern that would assist in meeting the objectives of financial statements.

Accrual basis: Under this, transactions are entered in the books of account as and when they occur irrespective of payment was received or made.

Going concern: Reporting entity is going to operate and is not intended to shut down its business in near future.

III. Qualitative characteristics

Framework lists the following attributes of information of financial statements:

- Understandability
- Relevance
- Reliability
- Comparability

IV. Elements of Financial Statements

Framework identified the five elements of financial statement:

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

Liability - "liability is an obligation of the entity as a result of past events or the amount owes by firm to outsiders".

Equity- "Equity is the residual interest in the assets of the entity after deducting all its liabilities."

Expense- "Expenses is the cost incurred in producing and selling the goods and services"

Revenue- "Revenue term is used for the amount received from sales of goods or from rendering services to customers". Here income is of recurring nature.

Assets, liabilities and equity are the component associated to the financial position of the enterprise and constitute the balance sheet. Whereas, expenses and revenue are the component associated to the financial performance of the enterprise and constitute the income statement/Profit & Loss account.

V. Recognition of the elements of financial statement

To be recognized in the financial reports, the above mentioned elements must satisfy the following criteria:

- Any benefits associated with item that occur in future and is of economic nature will flow to or from the organisation.
- Cost or value of an item can be measured reliably.

VI. Measurement of the elements of financial statements

This section of framework deals with decision of how we should measure the item after it is recognized in the financial reports. It suggests the following number of basis of measurement:

- Historical cost
- Current cost
- Realisable cost
- Resent value

The framework states that most common basis of measurement is historical cost, which is adopted by entities in preparing their financial statements.

VII. Concepts of capital and capital maintenance

Framework discusses the two concept of capital

- Financial concept of capital is in relation to investment and is known as net assets or equity.

- Physical concept of capital is concerned with operating capability or production capacity.

Financial capital maintenance is a process where profit is earned when value of net assets at the end of a period is higher than the value at the beginning of a period. Whereas under physical capital maintenance, profit is earned if physical capacity at the end of the period is higher than at the start of a period of an entity.

Objectives of IASB

In 2010, objective of financial reporting for general purpose was revised by IASB as "to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity"

Following are the objectives of financial reporting:

1. Furnishing particulars valuable in making decision regarding investment and credit activities of the entity.
2. Furnishing particulars valuable in determining cash flow potential of the entity.
3. Furnishing particulars concerning the enterprise's resources change in position of resources and claims against those resources.
4. Supply information that reveals the entity's earning and performance.
5. Provide information regarding liquidity, solvency and funds flow position of the entity.
6. Provide the additional information such as management explanations and interpretations.
7. Evaluation of management stewardship.

3.2.5 FASB Conceptual Framework

"Objectives of Financial Reporting by Business Enterprise" was issued by Financial Accounting Standard Board (FASB) in 1978 along with the issuance of "Statement of Financial Accounting Concept No. 1" after taking into account the report of Trueblood committee.

FASB identified the following objectives of financial reporting:

1. To share the information with current and future investment in simple language so that they are able to take decision related to their investments and other related issues.
2. To impart particulars related to cash management to various stakeholders such as investors (current and potential), creditors, bankers, etc. so that they may plan their respective courses of actions by taking into consideration the volume and timings of cash receipts from sale, dividend and interest, etc.
3. To provide information about the use of economic resources, present status and future estimation.
4. To provide information concerning financial position of an enterprise during a period. Information from the past helps creditors and investors in assessing the potential of an enterprise.

5. To provide information regarding transactions that affects the liquidity and solvency position of an enterprise.
6. To provide information how the management has fulfilled its stewardship responsibilities towards its owners for the use of resources assign by enterprise.
7. To provide information that assists the management in making decisions for the benefits of the shareholders (owners).
8. Objectives of financial reporting includes predictability its element and highlighted the use of accounting information for different users and not specifically focus on creditors and investors only.

Highlights of FASB Concept No. 1

1. Financial reporting's main purpose is to supply particulars valuable in making decisions regarding economic activities of an enterprise.
2. Financial reporting's objectives are subject to change due to economic, political, legal and social environment in which reporting take place.
3. Objective of financial reporting are exaggerated by the attributes and limitations of the kind of information provided in reporting
   i. Here, information is related to business enterprise.
   ii. Information is an outcome of approximation, not exact measure.
   iii. Information reflects the financial results of events and transactions.
   iv. Information assists in making decisions about enterprise.
   v. Information is used and provided at a cost.
4. Objectives are in the form of external financial reporting for general purpose of an enterprise in the statement.
5. Primarily objectives arise from the needs of external users who lack authority and rely on the information provided by management. Objectives focus on the common interest of the various users and they are not just concerns to financial statements but to financial reporting.
6. Here the term ‘Creditors’ and ‘Investors’ is used in broader sense and also includes those who advise and represent them along with those having or consider to have a claim to enterprise resources.
7. An investors and creditors expectation about future performance is reflected through their investment and credit decisions. Expectations of creditors and investors are commonly based on the assessment of past performance of an enterprise.
8. Financial reporting's main focus is to provide information about earning.

9. Accrual accounting basis furnishes a superior demonstration of current and future of enterprise to cause cash flows rather than the particulars about earning based on actual cash receipts and payments.
10. Financial reporting provides information about how management fulfils its responsibility of stewardship towards owners and impart particulars about financial performance of an enterprise through a period.
11. Financial accounting is designed in such a way that provides useful information to those who wish to estimate the enterprise value rather than the directly measuring the value of enterprise.
12. Financial reporting provides information about earnings and elements of financial statements to investors, creditors and others to assess the possibility for cash flows.
13. Management of an enterprise being more informed about its affairs than the others users such as investors, creditors and others. Therefore, it must identifies certain circumstances and events, explains their effect on financial position of a corporation to increase the utility of financial information.

3.3 Corporate Annual Report

Annual report is an exhaustive report that describes the activities of a company held during the financial year. Annual reports are meant for communication of financial information about performance and position of an organisation to its various users.

Generally annual report contains the following sections:

- General corporate information
- Board of directors' profile
- Letter to the shareholders
- Management and discussion analysis
- Auditor's report
- Financial statements- Standalone financial statement
- Consolidated financial statement
- Noted to financial statement
- Accounting policies
- Business responsibility report
- Corporate governance

3.4 SEGMENT REPORTING

Objectives: This Standard is formulated with the objective of constructing guidelines for financial information reporting, about the various types of goods produce and about the various types of goods produce and services rendered by an enterprise. Information provided in the financial statements helps the users in the following manners:

- For better determination of the enterprise's risks and returns.
- For better understanding of enterprise's performance.
- For making more rational judgement regarding enterprise as a complete.

Information regarding operations of enterprise in different geographical areas and about different types of products and services is often known as segment information

Scope:

1. Application of this standard should be when presenting financial statements for general purpose.
2. Application of this standard is also required in the case of consolidated financial statements.
3. There should be a complete application of this standard by an enterprise rather than selective.
4. Need of information of segment be presented on account of the consolidated financial statements if consolidated financial statements and the separate financial statements of the parent are part of single financial report?

Definitions

The following are the terms used in this Standard:

1. Business segment – "Business segment is a discernible constituent of an enterprise that is engaged in providing a single product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments".
2. Geographical segment – "Geographical segment is a discernible constituent of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments".
3. Reportable segment – "Reportable segment is a business segment or a geographical segment identified on the basis of foregoing definitions for which segment information is required to be disclosed by this Standard".
4. Enterprise revenue – "Enterprise revenue is revenue from sales to external customers as reported in the statement of profit and loss".

5. Segment revenue- "Segment revenue is the aggregate of:
   - the portion of enterprise revenue that is directly attributable to a segment,
   - the relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment, and
   - Revenue from transactions with other segments of the enterprise.

Segment revenue does not include:

- extraordinary items as defined in AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies;
- interest or dividend income, including interest earned on advances or loans to other segments unless the operations of the segment are primarily of a financial nature; and
- gains on sales of investments or on extinguishment of debt unless the operations of the segment are primarily of a financial nature".

1. Segment expense – "Segment expense is the aggregate of
   - the expense resulting from the operating activities of a segment that is directly attributable to the segment, and
   - the relevant portion of enterprise expense that can be allocated on a reasonable basis to the segment,
   - Including expense relating to transactions with other segments of the enterprise.

Segment expense does not include:

- extraordinary items as defined in AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies;
- interest expense, including interest incurred on advances or loans from other segments, unless the operations of the segment are primarily of a financial nature;
- losses on sales of investments or losses on extinguishment of debt unless the operations of the segment are primarily of a financial nature;
- income tax expense; and
- general administrative expenses, head-office expenses, and other expenses that arise at the enterprise level and relate to the enterprise as a whole. However, costs are sometimes incurred at the enterprise level on behalf of a segment. Such costs are part of segment expense if they relate to the operating activities of the segment and if they can be directly attributed or allocated to the segment on a reasonable basis."

2. Segment result – "Segment result is segment revenue less segment expense".

3. Segment assets – "Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis".
4. Segment liabilities – "Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis".
5. Segment accounting policies – "Segment accounting policies are the accounting policies adopted for preparing and presenting the financial statements of the enterprise as well as those accounting policies that relate specifically to AS17".

Highlights

1. Geographical location of an enterprise operation and location of its customers affect its risks and returns. Geographical location refers to place where its products are manufactured or where its services are rendered) and location of customers refers where its products are sold or services are rendered to customers.

2. Organisational and internal reporting structure of an entity ascertains where its geographical risk is resulted from the location of its customers or the location of its assets.

3. To help in constitution of a business through reliability, relevance and comparability at different point of time.

4. How enterprises are organised and managed is resulted from the predominant sources of risks.

5. To identify and assign the segment wise assets, liabilities, expenses and revenues for the smooth functioning of business organisation.

6. To give information about the assets (fixed, current, intangible, tangible, etc.) which are being used commonly one or more segment and the basis of apportionment of assets over the segment. It is pertinent to mention here that the assets which are already used exclusively by a segment are not taken into consideration.

7. Liabilities (payables, outstanding liabilities, provisions) are categorized segment wise for better understanding.

8. The basic accounting policies which are being used segment wise are reported to that the different between/among various accounting policies.

9. Primary reporting format of segment and secondary reporting format of segment of an enterprise depends on its principal and secondary source of risks and returns.

10. The segment reporting may also be done in the form of a matrix based on business and geographical segments.

Format of segment reporting: Primary and Secondary

The primary or secondary reporting format depends on the sources of risk and return and on the nature of the segment.

- If the risk and return are based on quality of the product and services, it is called primary format of reporting. On the other hand, if risk and return are based on geographical areas, where the business is being run, is known as secondary format of reporting.
- If instead of product or services the operation are performed in different geographical areas becomes the basis of product and services the operation are performed in different geographical areas become basis for risk and returns then segment reporting should be done on the basis of primary format.

The main root and essence of risks and varying rates of return faced by an organization is depending on the organizational structure created by top level management (BODs and the CEO).

Business segment and Geographical Segment

1. The segment reporting is thought to be useful as it help the top level management in taking good decisions and alternatively their performance is also measured and the accountability is fixed.
2. The business segment or geographical segment reporting to the outside parties interested in a business organisation should be based on the provisions of the standard and not on the product or geographical areas.
3. The management approach of reporting- business and geographical segments establishes the relationship between the base of systems and internal structure of financial reporting of the organisation.

Reportable Segments

1. Segment is reportable if:
    - The revenue of segment is equal to or more than ten per cent of the aggregate revenue by all the segments; or
    - P/L of an individual segment is equal to or more than ten per cent of the aggregate profit/loss of all segments taken together.
    - Segment has value of assets equal to or more than ten per cent of the aggregate value of assets of all segments taken together.
2. Management of the enterprise may at its discretion designate reportable segment may also report a segment at its discretion though it may not be reportable as per the requirement of the standard.
3. The condition imposed by Standard as ten per cent is just to recognize the reportable segment rather than ascertaining materiality for any aspect of financial reporting.

4. A business segment which becomes reportable segment on satisfying the condition of 10 per cent in the immediately preceding period is treated as reportable segment in current year.
5. The segment of the current financial year which is reportable should be presented with previous year data in comparative form.

Segment Accounting Policies

1. While preparing segment information all accounting policies in this regard should be followed by the business organisation.
2. The allocation of assets and liabilities is done when expenses and revenues incurred/received on these assets and liabilities are also allocated to the segments.
3. The apportionment of assets, liabilities, revenues and expenses should be done to various segments on the basis of these nature and the segments.
4. Disclosure of additional information is allowed under this standard even if the information is not prepared on the grounds of accounting policies:
    - Information for internal reporting to the BODs and CEO for the purposes of making decisions.
    - The basis used for measurement of additional information is clearly described.

Disclosure

Primary segment reporting:

The following should be disclosed by a business organisation regarding reportable primary segment:

- Revenue
- Profit/loss
- Value of assets
- Amount of liabilities
- Cost associated with the purchase an asset during the period
- amount of depreciation and amortization charged for the assets of segment
- amount of non-cash expenses that form part of expenses of segment and were deducted to calculate the performance of segment.

Secondary/geographical Segment reporting

The following should be disclosed by a business organisation:

- In case business segment is the primary format of reporting, then secondary format disclosure will be of:
- the revenue (if it is equal to or more than ten per cent of the aggregate of the enterprise)

- value of assets of segment for each geographical segment (if it equal to or more than ten per cent of the aggregate of the enterprise)
- Total cost incurred for procurement of assets of segment for each geographical segment (equal to or more than ten per cent of the all segments)
- When geographical segment is a primary format then the following should be disclosed:
    - Revenue
    - Total value of assets
    - Total cost associated with purchase of assets of segment during the period
- Segment reporting with different location of assets and customers, then following should be disclosed:
    - the revenue (if it is equal to or more than ten per cent of the aggregate of the enterprise)
- Segment reporting with different location of assets and customers and geographical segment is based on location of customers then the following should be reported:
    - the revenue (if it is equal to or more than ten per cent of the aggregate of the enterprise)
    - value of assets of segment for each geographical segment
    - Total cost incurred for procurement of assets of segment for each geographical segment

3.5 **INTERIM FINANCIAL REPORTING**

Objective: This Standard is formulated to achieve the objective of specifying the minimal particulars of an interim financial report and to specify the postulates for identification and computation in complete financial statements for an interim period. To understand the financial condition, performance and earning of the enterprise, creditors, investors and others require a timely and reliable interim financial reporting.

Scope

1. Which entities should be needed to present interim financial reports, how frequently, and how soon after the end of an interim period is not mandated in this Standard.
2. The requirement for preparing and presenting information at an interim date by a statute governing an enterprise may be different in form and/or content as required by this Standard.
3. Preparation and presentation of a cash flow statement for the purpose of enterprise annual financial report is required under this standard for completed or condensed cash flow statement

Definitions

Terms used in this Standard:

Interim period – “Interim period is a financial reporting period shorter than a full financial year”.

Interim financial report – "Interim financial report means a financial report containing either a complete set of financial statements or a set of condensed financial statements for an interim period".

Content of an Interim Financial Report

Financial statements comprises of following in case of interim reporting:

a) Statement of position

b) Income statement

c) Cash flow statement

d) Notes

This Standard requires minimum, a set of condensed financial statement for preparation and presentation of an interim financial report because of timeliness, cost and to avoid repetition of information. Therefore, contains information regarding new activities, events and transactions and does not provide which was previously reported.

Essential Components of an Interim Financial Reporting

The following are the essential components of interim financial reporting are:

a) The Statement of financial position (Balance Sheet) in capsulized form

b) Income Statement (Profit/Loss Account) in capsulized form

c) The cash flow statement in capsulized form and

d) Selected explanatory notes.

Structure

There should be complete set of annual financial statements as per the requirement of standard having headings, sub-headings, earning per shares, etc.

The interim reporting should be done in comparative form showing the amounts of different items at the end of the current financial year with that of previous year.

Similarly, the comparative financial performance and cash flows should also be disclosed in comparative form for current and previous financial year.

Some important notes regarding disclosure through annual financial statements

1. If the amount of some items earlier shown in interim show a remarkable change then the same should be shown in a final interim report and note should also be given at the end explaining the cause of the same.
2. If something important is expected to happen in future which may affect P/L of the firm significantly must also be disclosed as per requirement of the AS 5.

3. It is expected that a business organisation will adopt the same accounting policies in interim or final reporting system while preparing the financial statements and portraying the result but if there is a significant change in a policy having the implications on the results of current or future financial year should specifically be disclosed.
4. Enterprise's reporting should not affect the calculation of annual result.
5. Recognising principles for the interim should be the same as for annual financial statements in case of incomes, expenses, assets and liabilities.

3.6 Practice Questions

1. What is business segment?
2. What is geographical segment?
3. What is segment?
4. Define reportable segment.
5. Explain the provisions regarding disclosure under segment reporting.
6. Write a detailed note on Accounting Standard 17.
7. What is financial reporting? Explain the objectives and qualitative characteristics of financial statements.
8. Write a detailed note on Trueblood report (1973).
9. Explain the various provisions provided in Corporate report.
10. What is corporate annual report and what are its various components.
11. Explain the objectives of financial reporting identified by FASB conceptual framework.
12. What are the objectives of financial statements recognized by the IASB conceptual framework?
13. Write a note on the CICA's Stamp report 1980.
14. Explains the qualitative characteristics of financial statements identifies by various committees.
15. Explain the development of financial reporting objectives.
16. What are the highlights of FASB concept?
17. What is interim period?
18. What are minimum component of interim financial reporting?
19. Explain the provisions regarding disclosure under interim financial reporting.
20. Write a detailed note on Accounting Standard 25.

Suggested Readings:

1. Jawahar Lal, "Accounting Theory", Taxman.
2. Vijay Kumar, M.P, "First Lesson on Accounting Standards", Snowwhite.
3. Glautier, H.W.E. And Undordown, B. "Accounting Theory and Practice" (Arnold Heinemann).
4. Kenneth S. Most, "Accounting Theory", Ohio Grid Inc

Unit - 4

S.No.	Particulars
4.1	Merchant Bankers: Introduction
4.2	Objectives of Merchant Bankers
4.3	Merchant Banking in India
4.4	Functions of Merchant Bankers
4.5	Process of registration of Merchant Banker
4.6	Mutual Funds: Introduction
4.7	Objectives of Mutual Funds
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4.13	Forensic Accounting: Introduction
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4.21	Human Resource Accounting: Introduction
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4.23	Definitions of Human Resource Accounting
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4.25	Objectives of Human Resource Accounting
4.26	Models/ Methods of Valuing Human Resource
4.27	Human Resource Accounting in India
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4.29	Environmental Reporting: Introduction
4.30	Essentials of Environmental Accounting and Reporting
4.31	Advantages of Environmental Reporting
4.32	Roles and Responsibilities under Environmental Reporting
4.33	Corporate Social Responsibility: Introduction
4.34	Benefits of fulfilling Corporate Social Responsibility

4.35	Presentation and Disclosure of Corporate Social Responsibility in Financial Statements
4.36	Non-Banking Financial Corporations
4.37	List of Rules applicable to NBFCs
4.38	Classification of Non-Banking Financial Corporations
4.39	Practice Questions

Objectives of the Unit

After going through this unit, you will be able:

- To understand the concept, objective, functions and rules pertaining to merchant banking in India.
- To provide knowledge of objectives, need and provisions relating to mutual funds in India.
- To familiar with the characteristics, need and objectives of Forensic Accounting and its scope in India
- To understand the methods and concepts of Human Resource Accounting in India.
- To have knowledge about Reporting Rules relating to CSR, Environmental Reporting and NBFCs in India.

4.1 MERCHANT BANKERS – INTRODUCTION

Merchant banker is a specialized agency which works as a liaison amid the company and the investors. It play an imperative role in primary market activities and also responsible for marketing the issues of securities and preparing the prospectus. Merchant bank does not support regular commercial banking services like accepting deposits from general public. A merchant banker is engaged in management of the business by making arrangements of sales, purchases and subscribing of the securities as a manager, mentor or counsellor or providing advisory services regarding issue management.

According to SEBI (Merchant Bankers) Rules, 1992 — "A merchant banker has been defined as any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory services in relation to such issue management".

According to Charles P. Kindleberger — "Merchant banking is the development of banking from commerce which frequently encountered a prolonged intermediate stage known in England originally as merchant banking".

4.2 Objectives of Merchant Bankers

The key objectives of merchant bankers are as follow:

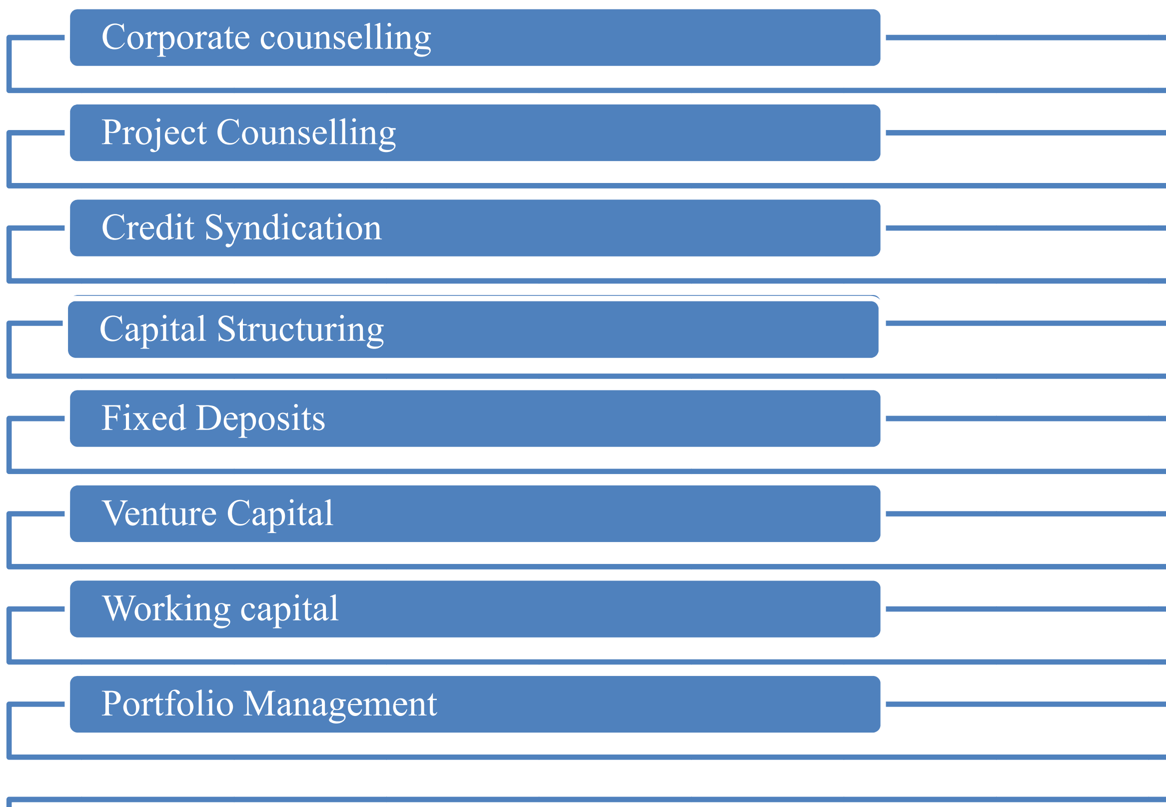
- To channelize the surplus money available with community into fruitful opportunities
- To harmonize the working of diverse mediators such as registrar, bankers, advertising, brokers, etc.

- To make certain the conformity with guidelines of the securities market

4.3 MERCHANT BANKING IN INDIA

In 1969, National Grind Lays Bank set up the very first bank, after that Citi Bank started merchant banking services in 1970. In 1972 the SBI (State Bank of India) established first separate merchant banking division followed by ICICI bank in 1973 and other Commercial Banks such as Canara Bank, Bank of India, Bank of Baroda, Syndicate Bank, UCO Bank, etc. After the FERA regulations, various development banks and financial institutions such as IFCI and IDBI entered in merchant banking in 1973. Then private brokers and financial consultancy firms gave competition to Commercial Banks in this field. Initially, merchant bankers managed the public issues and provided financial consultancy services. But afterwards they performed various activities stated above.

4.4 FUNCTIONS OF MERCHANT BANKERS



4.5 Process of registration of Merchant Banker

As per Rule 3 of SEBI

In India merchant bankers are regulated through SEBI (Merchant Bankers) Regulations, 1992. According to rule 3 "Any person who is not certified by SEBI rules, cannot perform any activity of merchant banker".

1. A person should apply to obtain certificate to the Board in *Form A.*

(1A) an application should be given with application fee (non-refundable) as mentioned in Schedule II.]

2. Such application should be prepared for subsequent given categories of the merchant banker as:—

(*a*) Category I

(*i*) To perform an activity regarding issue management and other aspects relating to it.

(*ii*) To work as a consultant, sponsor, portfolio manager, etc;

(*b*) In II, that is to operate as counsellor, sponsor, portfolio manager, etc;

(*c*) In III, work as an underwriter, counsellor, consultant of an issue;

(*d*) In IV, perform only as a counsellor or consultant of an issue.

(2A) w.e.f. 9th December, 1997 it includes:

(*i*) An application under sub-rule (2) should be prepared to perform the deeds stated in clause (*a*) and

(*ii*) An applicant can perform the action as a portfolio manager after obtaining separate registration certificate as per SEBI regulations.

Rule 4: Conditions for Merchant Banker registration

1. According to rule 3, incomplete application will be rejected by board and if rules as per the form are not followed by applicants then application will not be accepted.

   After rejection, the applicant will be given a chance to confiscate the objections within specified time provided by board.

2. The Board may call for clarification related to the activity of applicant for the reason of discarding of the application (Rule 5).

3. The applicant will be called to appear in front of board if required for personal representation.

Rule 7: Capital adequacy norms.

The capital adequacy prerequisites defined under clause (d) of rule 6 state that net worth of applicant would be equal to or more than five crore rupees while applying for registration.

For the reasons of sub- rule (1), the net worth will be:

Category	**Minimum Amount**
I	Rs. 5,00,00,000
II	Rs. 50,00,000
III	Rs. 50,00,000
IV	Nil

Description: According to this rule, net worth means "the value of the capital contributed by such firm or the paid up capital of such corporate body plus free reserves at the time of making application under sub-rule (1) of regulation 3".

Rule 14: Regarding preservation of Books of Accounting and records , etc.

(1) Each merchant banker will maintain and preserve "a copy of Balance Sheet; Profit and Loss A/c; Auditor's Report and Statement of Financial Position".

(2) Each merchant banker will inform the Board about that place all such documents are kept.

Lead Merchant Banker's appointment (Rule 18)

This rule is withdrawn with effect from 26-08-2009

(Rule 20): Responsibilities and liabilities of Lead Managers

(1) A statement consists of responsibilities is handed over to the Board at least one month before the starting of the issue for subscription

(2) Any lead merchant banker will not be related to such a merchant banker who does not hold the license related with the issue (Rule 21).

4.6 MUTUAL FUNDS – INTRODUCTION

It is a proficiently managed company that collects money from various investors and invest in to different securities such as stocks, bonds, short-term money market instruments, etc. The fund exchanged through a corporate body is called mutual funds. The fund manager of the company trades in underlying securities, realize gain or losses and paid to investors. Total funds of Mutual Fund Company are divided into small units of equal value called units. Each investor whether large or small can enjoy the benefit of portfolio investment.

The SEBI Regulations, 1993, "mutual fund as a fund established in the form of a trust by a sponsor, to raise monies by the trustees through the sale of units to the public, under one or more schemes, for investing in securities in accordance with these regulations".

4.7 OBJECTIVES OF MUTUAL FUNDS

Mutual funds cater the needs of the different investors who want to earn fixed income and who are growth oriented. The prime objectives of mutual funds are as follow:

- Mutual funds attract people for saving and investment.
- To increase the income of the investors by distributing attractive dividends
- To invest for capital appreciation

4.8 BACKGROUND OF MUTUAL FUNDS IN INDIA

In India, Unit Trust of India (UTI) with a special Act launched the idea of Mutual fund in 1964 and offered US-64 (first scheme). Then UTI hosted the other fund to mobilize the saving of the public. Government of India allowed public sector commercial banks to perform mutual funds functions in 1987 with their subsidiaries through the alteration in Banking Regulation Act. First mutual fund set up by SBI followed by Punjab National Bank, Canara Bank, Indian bank, BoI, life Insurance Corporation and other financial institutions.

Currently, on the Abid Hussain committee recommendations, foreign countries were allowed to set up mutual funds in India. Government of India began various regulatory methods with SEBI and other agencies to increase the benefits of the investors.

In 1993, many private sector industries entered in mutual funds, but, securities market of India had to suffer lots of flux. Then confidence of on investors trembled due to various scams and scandals and they started to leave the markets. To build up the confidence of the investors again SEBI came into effect in 1992 and regulated mutual funds working under SEBI (Mutual Funds Regulation) Act, 1996 to safeguard the interest of public and to develop the mutual fund market.

4.9 SOME PROVISIONS OF MUTUAL FUNDS IN INDIA

- **Registration**: It is obligatory for mutual fund to register under SEBI by its sponsors before it starts. If SEBI becomes satisfy with its goodwill, credibility and integrity, then SEBI can approve its registration.
- **Selection of Trustee**: Mutual funds are set up as trust in India. Therefore it is necessary to appoint knowledgeable, experienced, capable and reputed trustee with the approval of SEBI. Trustee has the power to monitor the working of various schemes and discharge AMC with the support of SEBI.
- **Establish an Asset Management Company (AMC)**: An AMC manages the finance of different schemes, focuses on research, serves the investors and makes investments. So it becomes necessary to establish an Asset Management Company by the trustee. The minimum net worth will not be less than Rs. 10 crore of an AMC. It also performs consultancy services and submits the quarterly report to mutual fund.
- **Selection of custodian**: it also becomes important to select a custodian with the approval of SEBI.

4.10 NEED OF MUTUAL FUND

The prime benefits of mutual funds are as follow:

- **Benefit of qualified Management:** Under this, experienced professionals supervise a portfolio of securities which is to be sold or purchased on the basis of market research. If there is a change in the market, professionals make necessary adjustments in the fund's mixture of investments to protect the investors from loss.

- **Diversification of securities:** Mutual funds establish a diversified portfolio investment at low cost.
- **Knowledge about Various securities:** It includes a wide variety of securities; hence, provides detail of various securities.
- **Reduce Cost:** With the diversification of securities like stocks and reduce the cost of the investment.
- **High Liquidity:** It comprises of highly liquid investments which can be traded easily. Mutual funds are required by law to buy, or redeem. The price can be calculated by net asset value (NAV) method.
- **Convenience:** Mutual fund shares can directly be purchased or sold through an intermediary.
- **Protecting Investors interest:** Mutual funds follow a number of rules and regulations laid on them; hence they protect the interest of investors.

4.11 FORMS OF MUTUAL FUNDS IN INDIA

Close Ended mutual Funds: These are the funds which have specific target, amount or time period. When the target and period are completed, then investors can't obtain more units of mutual funds. These units of mutual fund are traded publically. The prime goal of close ended funds is to create capital appreciation. When the maturity period exists then total amount is disinvested and gains are distribute to stakeholders in their unit proportion.

Open Ended mutual Funds: These are the funds which have not any specific maturity time.

Based on Income and Investment

Income Fund: The fund which generates routine income for the investors periodically and declare dividend regularly. It focuses on regular income but not concentrates on the capital appreciation. It also focuses on higher return and short run gains as compared to bank deposits.

Growth Fund: Such fund focuses primarily on capital gains. Therefore the fund is known as "Nest Eggs" investment. The main aim of the fund is to meet the needs of the investors and declare dividend. It is a high income and having growth potential and more risky fund. It is best for the businessman and salaried people.

Balanced mutual Fund: It is a blend of earnings and growth fund and also known as Income cum growth fund. The fund provides regular income with capital appreciation.

Specialized Funds: These funds fulfil the needs of particular categories of people.

Money Market Mutual Funds (MMMFs): These are money market instruments having all characteristics of open ended funds but with extremely liquid and secure securities.

Taxation Funds: These funds offer tax rebate either in the national or overseas capital market.

4.12 NET ASSETS VALUE (NAV) METHOD OF VALUATION OF MUTUAL FUNDS:

It is used to determine the operational competence of the units of mutual funds. The fundamental value of a unit in a meticulous method is termed as Net Assets Value which will be obtained after the trade to the mutual fund corporation.

The chief constituents of NAV method are**:**

Investment related Income and Expenses: It includes the main items given below:

- Dividend income
- Capital changes as a result of return on capital, tax treatment, etc.
- Interest received from fixed income investments
- Costs of business

Capital Stock and Distribution – It comprises of buying and selling or redemptions of shares.

Formula:

NAV = (Market Value of Assets – Liabilities of Mutual Funds) / Outstanding Units of Mutual Fund

4.13 FORENSIC ACCOUNTING - INTRODUCTION

Maurice E. Peloubet first coined the concept in 1946. In the emerging economic scenario, due to increasing financial frauds, forensic accounting (FA) came to the forefront. FA involves integration of accounting, auditing and investigative skills for inquiring into financial crimes and to pursue justice, providing reliable information regarding the facts findings related to financial crime.

It means: "Belonging to, used in or suitable to court, of judicature or to public discussions, debate and ultimately dispute resolutions", it can be also termed as "an accounting analysis that is suitable to the court which will form the basis for discussion, debate and ultimately dispute resolution"[1].

Definition of Forensic Accounting

According to Bologna and Lindquist, "The application of financial skills, and an investigative mentality to unresolved issues, conducted within the context of rules of evidence. As an emerging discipline, it encompasses financial expertise, fraud knowledge, and a sound knowledge and understanding of business reality and the working of the legal system."

"Forensic accounting is the application of accounting principles, theories, and discipline to facts or hypotheses at issues in a legal dispute and encompasses every branch of accounting knowledge"[2].

4.14 Evolution of Forensic Accounting in India

In India, Kautilya has first propounded forty ways of appropriation in his famous book Kautilya's Arthashastra. In India Enron, Satyam and Rajat Gupta cases were the basic reasons focusing the

[1] Webster's Dictionary
[2] AICPA

attention towards the concept of forensic accounting. The task associated with such investigations is given to chartered accountants. It has been seen that in India, a few chartered accountants follow the practice of fraud examination as a separate profession.

4.15 NEED FOR FORENSIC ACCOUNTING

The Indian scenario is quite different as every company does not fully rely on forensic auditing and there is a certain lack of awareness among the common masses as well. However, the awareness regarding forensic accounting is on an increasing trend as in the current economic ecosystem as the trade transactions are increasing and getting highly complex in the backdrop of increasing frauds involving employees. Therefore the corporates are increasingly going for court action to resolve their problems and lawyers and courts need more support from specialists in different areas of fraud which necessitate the adaptation of forensic accounting practices.

4.16 IMPORTANCE OF FORENSIC ACCOUNTING

Like insurance, the importance and necessity of Forensic Accounting is readily understood by business world when it actually needs it. The various features and benefits of forensic accounting are listed below:

(i) It helps in the detection of more effectual and proficient solutions in controlling financial frauds.

(ii) Forensic accounting can be used by businesses to detect financial anomalies among their financial transactions.

(iii) It helps in minimizing and preventing unnecessary loss.

(iv) It supports in building brand value.

(v) It can be used to appraise the work of professionals, including accountants themselves.

4.17 FORENSIC ACCOUNTANT

A forensic accountant "Analyzes, interprets, summarizes and presents complex financial and business related issues in a manner, which is both understandable and properly supported".

ROLES, FUNCTIONS AND DUTIES OF FORENSIC ACCOUNTANTS:

The various functions performed by them are:

- Forensic accountants act as an expert witness.
- Forensic accountants can be called whenever any suspicion of fraud is felt.
- Forensic accountants make use of their skill to help identify fraud
- Many a times, various financial documents and evidences are required to be presented; such work is not complete with their help.

- They help in the prevention and detection of frauds in the enterprises; which in turn helps the business to build its reputation.
- A forensic accountant helps to find out the activities as such activities have financial implications on the business.
- In case of settlement of insurance claim, some information is required to be supplied; where forensic accountant is going to help.
- Forensic accountants are skilled enough with interview skills that are required to handle interview suspects of certain sensitive financial misappropriations.

4.18 ESSENTIAL QUALITIES OF A FORENSIC ACCOUNTANT

Various qualities that a forensic accountant must possess are described as follows:

1. Analytical Mind
2. Detail-Oriented
3. Ethical
4. Inquisitive

4.19 MEANING OF FORENSIC AUDIT

"A forensic audit is an examination and evaluation of a firm's or individual's financial information for use as evidence in court. A forensic audit can be conducted in order to prosecute a party for fraud, embezzlement or other financial claims"[3].

Purposes of Forensic Auditing

Following are few purposes of Forensic Auditing

- To steer clear of deception
- To develop the confidence of community in the organization.
- To develop a detailed and all-inclusive corporate governance policy
- To build a healthy and optimistic working environment

4.20 METHODS AND TOOLS OF FORENSIC AUDIT

Various tools and techniques used by Forensic Audit are:

1. **Benchmarking**: Under this method, a standard is pre-determined with which the actual performances are compared.
2. **Ratio analysis:** It analyzes the relationship between two or more expressions in order to know the trends and changes.

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[3] Investopedia

3. **System analysis**: To properly inspect the systems and to find out whether there is any weakness in it or not.
4. **Specialist software**: It is just like inspection tools for analysis associated with data matching.
5. **Exception reporting**: It provides an automatic unchangeable report which depicts the deviations from the given norms.

4.21 HUMAN RESOURCE ACCOUNTING - AN INTRODUCTION

Human Resource Accounting (HRA) is an evolving concept in accounting practices which involves application of economic and accounting principles for managing human resources in an organization. Earlier, all the expenditures related to human resource were charged against revenue. But in current dynamics, this notion has been changed and there is a strong belief that any expenditure incurred on formation of human resources must be capitalized as they have the power to activate other resources of the institutions.

Human Resource Accounting describes accounting for the cost and value of people as the institutional resources in monetary terms. It includes measuring costs incurred by an organization in order to “recruit, select, hire, train and develop employees and judge their economic value to the organization”.

Following are the characteristics of human resource accounting:

- It involves the accounting of investment done in human resource by an institution.
- The information linked to human resource is exhibited to the different stakeholders.
- All the persons working in the concern are involved in human resource accounting.
- It improves the quality of human resource by depicting their respective strengths and weaknesses.

4.22 EVOLUTION OF HUMAN RESOURCE ACCOUNTING

The roots of HRA can be tracked back from the medieval period where the Europeans kept a record of the anticipated future earning from a prisoner with respect to the cost of keeping them. The comprehensive description of evolution of human resource accounting was provided by Flamholtz by dividing it into five stages:

Stage	Time	Description
Stage 1	1960 - 1966	This stage focused on building up the conceptual framework for HRA by using different available theories such as psychological and economic theories.
Stage 2	1966 - 1971	During this stage in order to manage human resource in a pragmatic manner various models covering monetary, non-monetary aspects were developed. The major contributor in this era was Roger Hermanson.

Stage 3	1971 - 1976	With the speedy growth in research area of HRA, most of the researchers (namely, R.G. Barry) strived to evaluate the applicability of human resource accounting in businesses.
Stage 4	1976- 1980	During this era, different complex issues in human resource management eclipsed the research in the field HRA and the organizations were reluctant to provide aid for research in this field.
Stage 5	1980 onward	During this era, the usefulness of HRA in facilitating development, profitability and endurance of the organization was realized and the focus was shifted to academic research with practical applications. Organization specific customized models incorporating tangible and intangible asset have developed and HRA has become a part of accounting practices.

4.23 DEFINITIONS OF HUMAN RESOURCE ACCOUNTING

According to **American Accounting Association (1973)** “HRA is the process of identifying and measuring data about human resources and communicating this information to interested parties”. The different authors have also defined HRA differently, such as:

According to Davidson, "Human resource accounting in the measurement of the cost and value is a term used to describe a variety of proposals that seek to report and emphasize the importance of human resources knowledgeable, trained and loyal employees in a company's earning process and total 'assets".

According to **Flamholtz and Lace (1981),** "Human Resource Accounting may be defined as the measurement and reporting of the cost and value of people as organizational resources. It involves accounting for investment in people and their replacement costs, as well as accounting for the economic values of people to an organization”.

4.24 NEED AND SIGNIFICANCE OF HUMAN RESOURCE ACCOUNTING

In this era of throat cut competition and changing global dynamics, efficient utilization of all the available recourses is the need of the hour. The various factors that necessitate the need of HRA are described as follows:

1. Although human resource is most vital resource without which other resources remain ineffective but, the traditional accounting practices do not provide any information relating to these resources in an organization.

2. Human resource is an enabling factor in enhancing productivity and profitability of a concern which in turn helps the firm to gain competitive advantage over others. If they are not accounted for, the true worth of the firm can’t be determined.

3. In traditional accounting practices, the expenses associated to the human resource are known as revenue expenses but the benefits from the human resource are accrued over a period of time which fails to depict the true net income of the concern.

4. The utility of human resource and need of its management can't be understood until and unless the same is accounted in the books of the corporation.

In the light of all the above points, there is a need for proper accounting of human resource in the book of accounts of the organization so that human resource can be utilized optimally

The following are the main advantages of HRA:

1. Proficient decision making and manpower planning
2. Proactive Personnel policies formation
3. Utilization of Human Resource
4. Increases morale and motivation
5. Attracts best Human Resource
6. Designing Training and Development Programme

4.25 OBJECTIVES OF HRA

HRA assigns a cost effective value to human resource and represents it in books by treating it as an asset. The various objectives of HRA can be stated as follows:

1. To create an enabling environment for human resources in an optimized manner.
2. To enable the management to use human resources effectively.
3. To analyze and classify human asset as preserved, used up or treasured.
4. To serve in formulations of sound management and proper decision making principles.
5. In total, it facilitates recording and disclosing of human resource in the books of account and financial statement.
6. In addition to the above mentioned objectives, it also ought to facilitate the decision making within an organization in "direct recruitment; promotion; transfer vs. retention and retrenchment vs. retention, etc".

4.26 MODELS/ METHODS OF VALUING HUMAN RESOURCE

The benefits from human resource accounting are numerous and ongoing. Different methods are used in different organizations for valuing human resource. The various methods/models of HRA are shown in Figure 1.

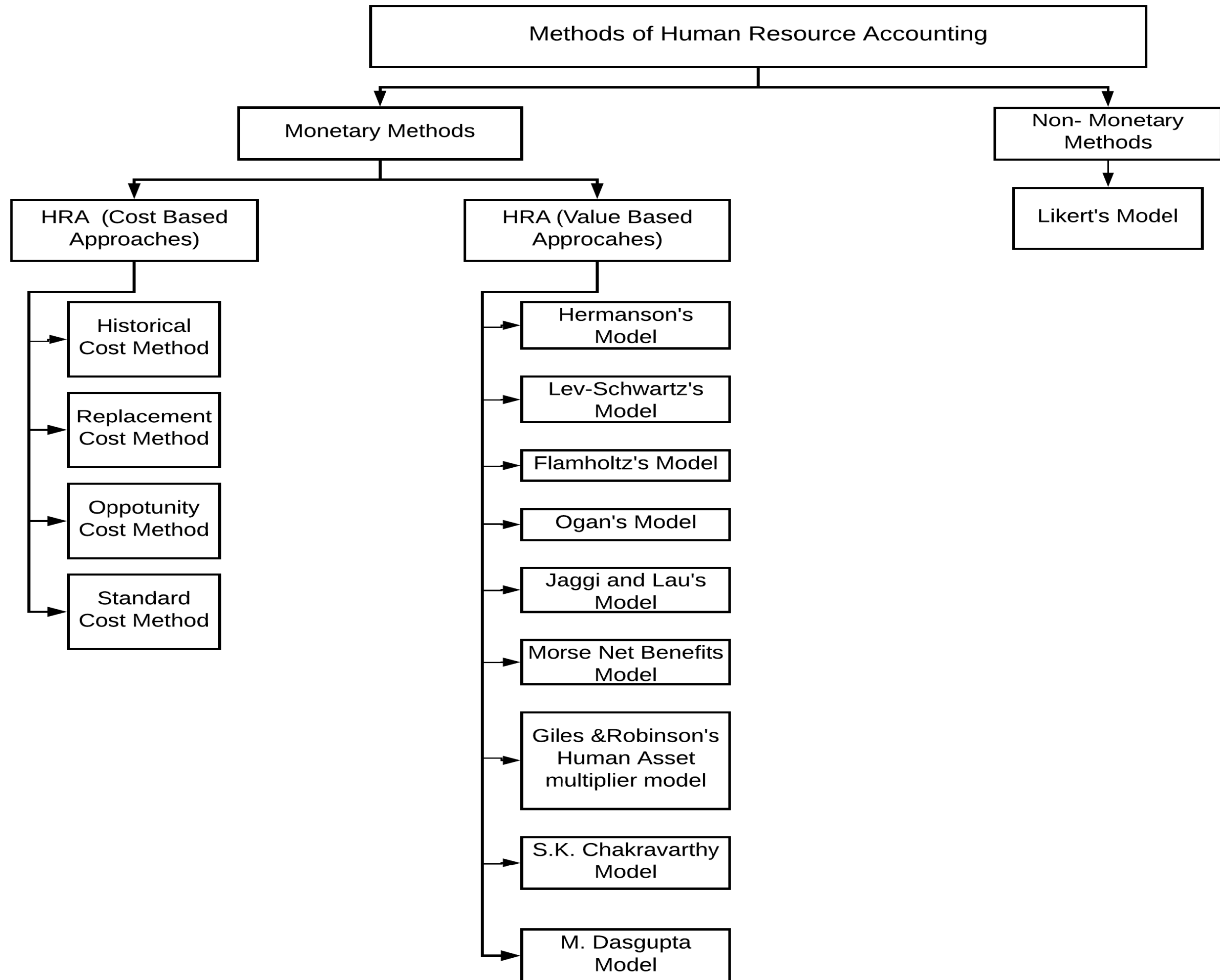


Figure 1: Models of HRA

Generally all these methods can be categorized into categories: cost based approach and value based approach of human -resource accounting.

Cost Based Method of HRA

Under this approach, all the expenses relating to employees are capitalized and are gradually written off in the coming years.

i. Historical Cost Method

Historical cost method first propounded by William C. Pyle and others in 1967. This method takes into account the actual cost incurred by an organization on the human resource whether it is pertaining to recruitment, selection, training or development, etc. Such cost is capitalized and written off during every year according to the length of service anticipated to be provided by the employee. The total amount spent on human resource is shown in the balance sheet as an asset and a proportion of it is write off every year from the profit and loss account.

ii. Replacement Cost Method

Replacement cost method was recommended by Rensis Likert and it was further developed by Eric F. Flamholtz. Unlike historical cost approach this method focuses on the cost to be incurred to replace the present employee by a new one.

iii. Opportunity Cost Method/ Competitive Bidding Method

Opportunity cost was first introduced by Hc Kimian and Jones. This method includes only scarce employees in human resource. If any person is appointed without any sort of bargaining, the opportunity cost of the same would be nil. It is found by a process of competitive bidding; thus it is also known as competitive bidding method of valuing human resource. For example, Mr. A is working in XYZ Ltd. with a salary of Rs. 35000 per month and another company PQR Ltd. is offering him Rs. 50000; thus, Rs. 50000 would be the opportunity cost of Mr. A.

iv. Standard Cost

David Watson was the profounder of this method. Here, employees are bifurcated into different categories as per their positions in the hierarchy of the organization. The worth of human resource is calculated by fixing the standard cost for each category. Later, standard cost is compared with the actual results to know the variances so that necessary action can be taken accordingly.

Value Based Method of HRA

There are various methods under this approach; some of them are as follows:

i. Harmanson's Model

It was developed by R. H. Hermansons. He outlined two techniques for determining the value of human resource:

Adjusted Discounted Future Wage Model

This model takes into consideration. The sort of relationship amid the value of human resource to the enterprise and the salary paid to them for their services. A number of steps are followed to compute the value of human resource:

a. The estimation about the salaries of the staff for the next 5 years is made.

b. Discount factor is applied.

c. Efficiency ratio is calculated for next 5 years. (Efficiency ratio is known as the ratio of rate of return of company to rate of return of industry)

d. By using the discount factor, the present value of wages/salaries is determined.

e. Present value of potential services is calculated by using the formula= P.V. of wages/salaries * Efficiency Ratio.

Unpurchased Goodwill Model

This method is based on the hypothesis that "The best available evident of the present existence of un-owned resources is the fact that a given firm earned higher than normal rate of income for the most recent year"

For example, the ARR on tangible asset in XYZ industry is 15 % for last five years. ABC Ltd. earns 18 % on its tangible asset (worth Rs. 40,00,000). You are required to compute the value of intangible asset (i.e. human resource).

Profit= Tangible Asset* Rate of Profit for the firm

= 40,00,000*18% = 7,20,000 Rs.

Capital Base required to earn the profit in the industry=

Profits earned by the firm/Rate of return of the industry

= 7,20,000/15%

= 48,00,000

Value of Un-owned Assets= 48,00,000-40,00,000 = Rs. 8,00,000.

ii. Lev- Schwartz's Model/ Present Value of Future Earnings Method

This model was propounded by Lev and Schwartz and is the most commonly used in India. Under this method, the income which is to be earned by an individual employee till he leave the organization is aggregated and the same is discounted to find out its present value.

The steps to be taken in order to determine the value of human resource are:

1. The employees are sorted into different categories based on age and skills
2. The average annual income of every group is determined
3. The total compensation of each group up to the age of retirement is calculated
4. The total remuneration will be calculated at a discount rate. (To find out the present value cost of capital is taken as discount rate)

This method is based upon the given formula:

$$Vr = \sum \frac{It}{1 + R^\wedge(t - r)}$$

Where,

Vr = the value of human resource r years old

It= the employee's annual earnings up to the age of retirement

R = discount rate (for a person or group)

T= retirement age.

iii. Flamholtz's Model/ Economic Value Model

This model was recommended by Flamholtz (1972) as advancement over the "present value of future earnings model" of Lev and Schwartz (1971). This model considers the prospect or probability of switch over of an employee from one task to another in his job and including his beforehand going away from the corporation i.e., death or retirement.

iv. Ogan's Model/ Certainty Equivalent Net benefit Model

This model was developed by P. Ogan in 1976. According to him, there are seven foremost determinants which are supportive in determining the value of human resource. The steps taken in this model are:

a) Calculation of the net benefit from each employee

b) Certainty Factor is determined

c) Certainty Equivalent benefits are calculated

These steps of calculating certainty equivalent net benefits are summarized in Figure 2.

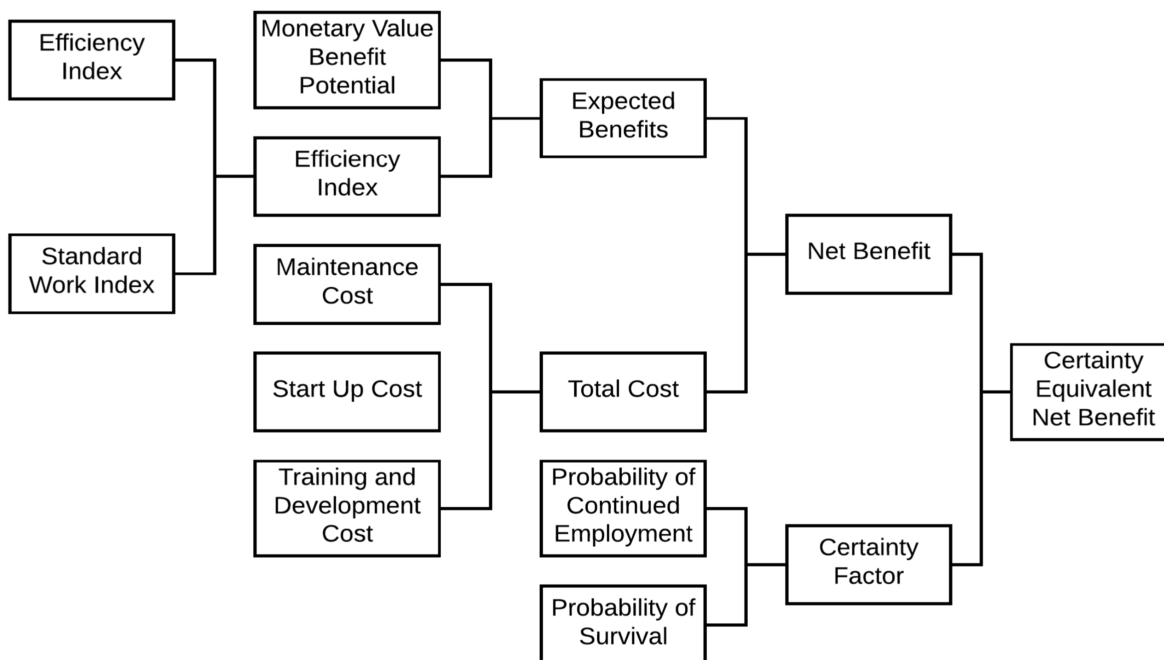


Figure 2: Major Determinants of Human Resource Model

v. Jaggi and Lau's Model

The model is based upon valuation of groups of homogeneous employees rather than individual employees. It is assumed in the model that the value of human resource will remain unaffected whether the employees in the same group belong to same unit/department or not.

The formula to compute the value of human resource as per Jaggi & Lau models is given below.

"TV = (N) rn (T) n (V)

Where TV = Current value of all current employees in a particular Category

(N) = Total number of employees currently in each category

n = time period

r = Discount rate"

vi. Morse Net Benefit Model

Under this method, present value of net profits received from future services of the employees are calculates in order to decide the value of human resource. Net profits are calculated by deducting the amount paid to them for their services out of the gross value of services. As this model considers time value of money, thus, the present value of net profits is discounted with the help of discounting factor to calculate the value of human resource.

vii. Giles and Robinson's Human Asset Multiplier Model

This model was developed by Giles and Robinson in the year 1972, for calculating the value of human resource which considers the going concern concept. The value of human resource is analyzed by a formula:

Value of Human Resource = salary of an employee or group * contribution factor

The same can be understood with the help of an example,

Category/ Groups	Total Wages/ salaries	Contribution Factor	Value= Total Salaries* Contribution factor
1	50000	3	1,50,000
2	60000	2	1,20,000
3	70000	1	70,000
Total value of human resources			3,40,000

viii. S. K. Chakravarthy Model/ Aggregate Average Payments Model

Sk. Chakraborty was the first Indian who tried to find out the value of human resources. This model laid emphasis on the fact that cost of each employee is to be taken as deferred revenue expenditure; this is to be amortized year over year. According to him, "To derive the present value of HR average feature tenure of employment of employee`s and average future salary should discounted at an appropriate rate, to be shown as investment in the asset side of balance sheet which is to be added to the capital employed in the liability side".

The formula for calculating this is:

$$V = \sum_{i=1}^{n}\{Ni * \frac{ASi}{(1+k)^n}\} + AC$$

Where,

V= Value of group of employees

N= Number of employees in each category

AS= Average annual pay

K= Return on capital employed (After tax)

i= 1,2…… n Years

ix. Dasgupta Model of Total Cost Concept

In 1978, Prof. M. Dasgupta propounded a model for HRA based upon total cost concept. This model includes the entire work force of the country whether employed and un-employed persons for computing the total value of human resources of the country as a whole rather than a single organization.

Non- monetary method of estimating the value of human resource

The non-monetary methods evaluate human resource on the basis of ratings, indices and ranking rather than using monetary terms. Nowadays, several organizations are using this method as a compliment to monetary methods. According to this method in order to assess the profit derived from employ of human resource, behavioral measurement techniques can be deployed.

4.27 HRA IN INDIA

In India, the Companies Act 2013 is silent about the treatment of human resource in the books of accounts. In other words, it is not mandatory for any organization to report for its human resources in the books of accounts thereby, limiting their accountability towards various stakeholders. However, due to change in present business environment, some companies in India have taken suo motto initiative to treat human resource as an asset and thus accounting for the same in their books of accounts.

Infosys Technologies is the enterprise which valued their human resource in monetary terms in 1995-96 for the very first time in Indian commercial history using the Lev & Schwartz Model. Following the footprints of Infosys and considering the benefits associated with HRA, several other companies have also started valuing their human resource. Some of them are:

- Bharat Heavy Electrical Ltd (BHEL)
- Oil and Natural Gas Commissioning (ONGC)
- Steel Authority of India Ltd (SAIL)

4.28 ISSUES AND PROBLEMS IN HRA

Unequivocally, HRA is beneficial for every organization in numerous ways but still it has not gained much importance like other branches of accounting because it may not be able to produce instant returns for the organization. There are several constraints because of which the management remains unwilling to initiate HRA. Some of them are:

i) There is lack of rules, act or guidelines to know the cost and value of human resources of an institution.

ii) The phase for which human resource is there in the organization is not defined and hence valuing them under ambiguity in future seems to be impracticable.

iii) There is always a terror that HRA may maneuver employees, as a few employees having low value may feel disheartened which itself will affect his efficiency.

v) The researchers are yet to arrive at an pragmatic proof to support the premise that HRA assist management of human resources.

vi) The tax laws do not recognize the significance and necessity of treating human resources as assets.

vii) There is no generally customary way to value human asset.

viii) This concept is at the developmental phase. More research is required for its effective application.

4.29 ENVIRONMENTAL REPORTING - INTRODUCTION

'Environment' means, the whole spectrum involving water, air, land and their inter relationships as well as their relationships with all the living creatures. It includes following areas:

- Bio-diversity and science
- Social issues relating to the environment
- Natural wealth
- Pollution and its prevention
- Environment and human resource

It can be seen that human being has created so many disturbances now-a-days in the natural system resulting into pollution in the environment. It can be air pollution, water pollution and soil pollution, etc. There are numerous reasons due to which such problems arise. The government and the concerned authority has made several laws and provisions in order to protect the environment from further deterioration, some of them are Water (Prevention and Control of Pollution) Act, 1974, Water (Prevention and Control of Pollution) Cess Act, 1977, Air Prevention and Control of Pollution Act, 1981, The Air Rule, 1982, Environment Protection Act, 1986, Factories Act, 1948, Hazardous Wastes Management and Handling Amendments Rules, 2003 and Ozone Depleting Substances Regulations and Control Rule, 2000, etc.

ENVIRONMENTAL ACCOUNTING AND REPORTING

Being a part of environment as well as numerous benefits is being taken by business houses from environment, it becomes necessary on their part to protect the environment and spend something for its enhancement.

Environmental reporting refers to "the preparation, presentation and communication of information relating to an organization's interactions with the natural environment".

Environmental reporting is optional in nature; still government agencies and other independent bodies and pressure groups remain an important pressure for environmental accountability.

4.30 ESSENTIALS OF ENVIRONMENTAL ACCOUNTING AND REPORTING

1. It must provide actual and relevant information pertaining to environment.
2. Only material information should be supplied.
3. It must be to the point and flawless. Cost and profit must be shown independently.
4. There must not be any biasness while selecting the information.
5. It must contain the complete information.
6. The information must carefully be studied about its nature, area and base.

4.31 THE ADVANTAGES OF CORPORATE ENVIRONMENTAL REPORTING

- Environmental reports help to communicate information relating to business to its shareholders regarding various aspects such as business development, investment, corporate responsibility, expansion, and recruitment.
- Environmental reporting helps the business in gaining more reputation.
- The environmental report helps building credibility, confidence and reputation of the organization.
- Environmental or sustainability reporting gives detailed information regarding the business to various concerned parties which in turn helps the investors to get better eco-efficient sources of investment.

4.32 ROLES & RESPONSIBILITIES UNDER CORPORATE ENVIRONMENTAL REPORTS

(i) CEO (Corporate Environmental Reports)

The CEO must ensure that the report must be understandable for all the related parties. It generally involves the statement containing the policies, rules and performance and introduction of CEO.

(ii) Company Secretary

Their role is to ensure that the resources are well supplied, and the required structures in the organization are well established, to make sure that the report is complete.

(iii) Environmental Staff

The environmental staff has to collect the data using various sources from the organization which is required for preparing environmental report.

(iv) Employees

They must ensure that the data that are being collected by the environmental staff during the reporting period are accurate and correct.

(v) Auditors and Verifiers

They ensure that the information reported in the reports is accurate and truthfully replicate the facts. Internal auditors will provide the on-going internal checks via the organization's systems and dealings. External auditors and verifiers will provide external and independent authentication that the information is correct.

(vi) NGOs

They may be directly exaggerated by the activities of the organization that is undertaking the reporting. So, they act as watchdog in order to make sure that the reports are accurate and justifiable.

ANNEXURE

Statement of Environmental Assets and Liabilities

As of…

Particulars	Amount (Rs.)
Financial information / Comparative year Environmental assets:-	
· Cash in trust funds	
· Investments in trust funds at fair value	
· Emission rights held	
· Emission rights held for sale (at fair value)	
· Insurance & similar products held against environmental risks	
· Contributions to voluntary & mandatory schemes	
· Inventory of natural & biological assets & depletions	
· Investments in air & water quality	
· Capitalized research & development	
· Capitalized net site preparation & restoration costs	
Environmental Liabilities and uncertain liabilities (provisions or contra asset accounts)	
· Present value of decommissioning, restoration & rehabilitation	
· Legal and constructive liabilities arising from past events	
· Deferred income from government allocations of emission rights	
· **Uncertain liabilities (Provisions or contra asset accounts)**	
· Provision for decommissioning, restoration & rehabilitation (current)	
· Provision for decommissioning, restoration & rehabilitation of (past)	
· Provision for contingent liabilities from past events	
Net adjustments to retained earnings for past errors & material omissions	
Net surplus (deficit) for current year+	
Estimate of net environmental assets (liabilities)	

4.33 CORPORATE SOCIAL RESPONSIBILITY: INTRODUCTION

CSR refers to corporate social responsibility and is that area of accounting research which states the disclosures (voluntary or mandatory) made by the organizations pertaining to the issues and aspects impacting the community at large and are much more than just an economic issue. According to Section 135 of the Companies Act, 2013, "The Board of Directors of every company having a net worth of Rupees 500 crore or more, or turnover of Rupees 1,000 crore or more or a net profit of Rupees 5 crore or more, during any financial year, to ensure that the company spends in every financial year atleast 2% of the average net profits of the company made during the three immediately preceding financial years on Corporate Social Responsibility (CSR) in pursuance of its policy in this regard". A committee is required to be set up for doing the job of CSR known as Corporate Social Responsibility Committee.

VARIOUS TERMINOLOGIES

Net Profit: "Net Profit refers to the profit resulted from the operations of the business in which the financial statements are prepared as per the provisions of the concerned act, but it shall not comprise the following, namely:-

(i) Any profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise; and

(ii) Any dividend received from other companies in India, which comes under and complying with the provisions of section 135 of the Act".

Net worth: Net worth termed as the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;

Turnover: Turnover means the collective value of the realization of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year;

4.34 BENEFITS OF FULFILLING CORPORATE SOCIAL RESPONSIBILITY

- It assists the organization to build its image by fulfilling the social responsibility.
- It assists the organization to complete the legal obligations it has.
- Business is a part of society; hence it is the responsibility of the concern to complete its obligations towards the same.
- It promotes the sales and builds up customer loyalty.
- By doing so, a well established business and its image help to get easy access to capital.
- It supports brand recognition.

4.35 PRESENTATION AND DISCLOSURE OF CORPORATE SOCIAL RESPONSIBILITIES IN FINANCIAL STATEMENTS

General Instructions according to Schedule III of Companies Act, 2013, states that any company which comes under section 135, it requires to disclose the amount spent to meet out social responsibility in the form of notes to the statement of profit and loss as 'Corporate Social Responsibility Activities'. It should include the following:

(a) Gross amount mandatory to be expended on such activities by the concern during the year.

(b) Amount expended on:

Particulars	In cash	Yet to be paid in cash	Total
Construction or acquisition of any asset			
Any other purpose			

(c) Details pertaining to related party transactions.

(d) Changes in the provision during the year should be shown separately in case any provision is made.

ANNEXURE

FORMAT FOR THE ANNUAL REPORT ON CSR ACTIVITIES TO BE INCLUDED IN THE BOARD'S REPORT

1. A summary of the company's CSR policy which must include the details pertaining to various policies and programs and a reference to the web-link to it.

2. The members of CSR Committee and its composition.

3. Average net profit of last three financial years of the corporation.

4. Stated CSR Expenditure (two per cent of the amount stated in above point 3)

5. Elements of CSR expended during any financial year.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
S. No.	CSR Project or activity identified	Sector in which the Project is covered	Projects or programs (1) Local area or other (2) Specify the State and district where projects or programs was undertaken	Amount outlay (budget) project or programs wise	Amount spent on the projects or programs **Sub -heads:** (1) Direct expenditure on projects or programs. 2.Overheads:	Cumulative expenditure upto to the reporting period	Amount spent: Direct or through implementing agency
1							
2							
3							
	TOTAL						

6. If the company did not spend the required amount on CSR; it shall have to present the explanation for not meeting the criteria in its Board Report.

7. An accountability statement by CSR group that the execution and supervision of CSR guidelines, is in conformity with CSR objectives and guidelines of the organization.

Sd/-	Sd/-	Sd/-
(Chief Executive Officer or Managing Director or Director)	(Chairman CSR Committee)	(Person specified under clause (d) of sub-section (1) of section 380 of the Act) (Wherever applicable)

4.36 NBFC (Non- Banking Financial Corporations)

Definition

Section 45I (f) of RBI Act, 1934 defines Non banking financial corporation as –

• "A *Financial Institution* which is a company;

• A *Non-Banking Institution* which is a company and the involved in the Principal Business of receiving of deposits under any scheme or lending, in any manner;

• Any *other Non-Banking Institution* or class of such institutions, which are specified by RBI"

4.37 LIST OF RULES APPLICABLE TO NBFCs

Companies Act, 2013

- Board declaration under Section 179 of the Companies Act, 2013 is required to be approved
- Shareholders declaration under Section 180(1)(a) and Section 180(1)(c) of the Companies Act, 2013
- Preferential issue under Section 42 of the Companies Act, 2013 and Rules made there under
- Conformity under Companies (Acceptance of Deposits) Rules, 2013 *(yet to be notified) – will not be pertinent if NBFC is a borrower.*

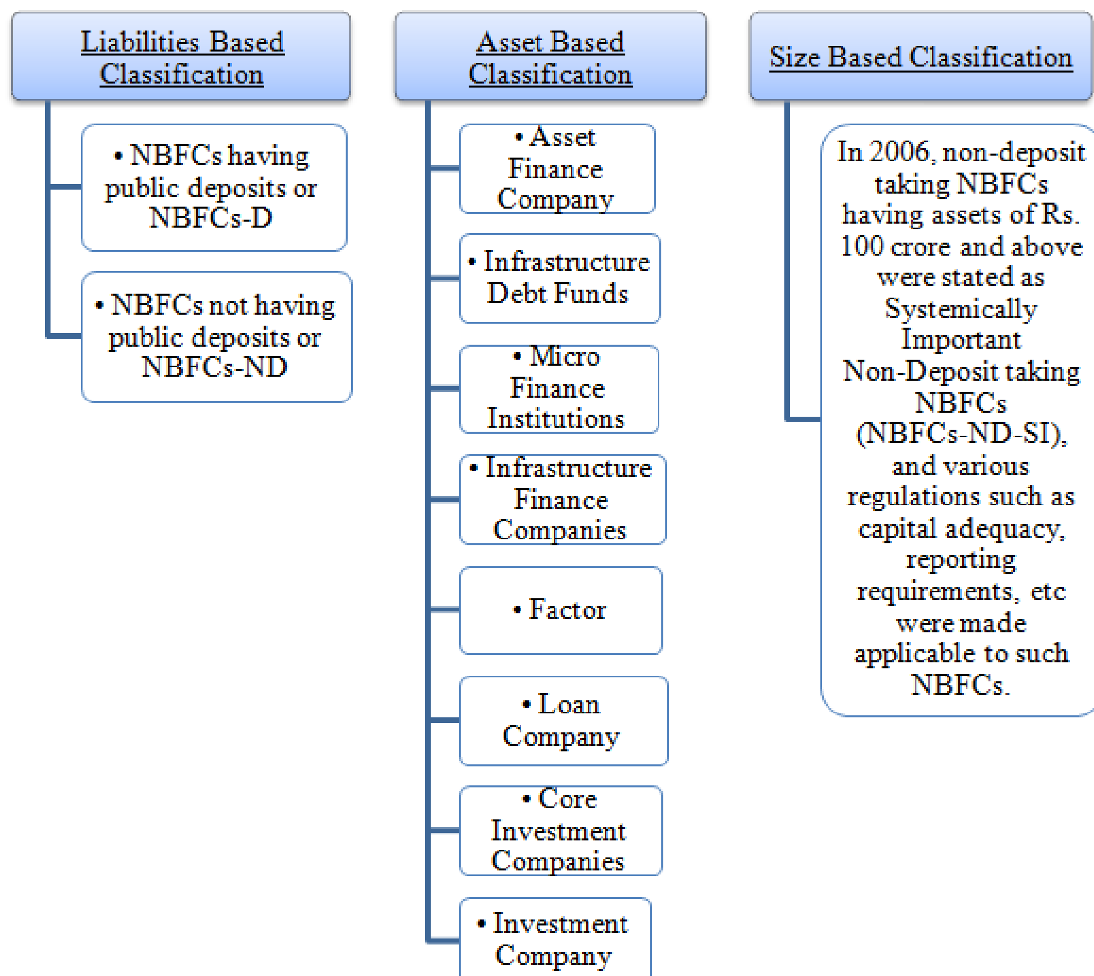
SEBI Laws

- Fulfillment of various rules & regulations applicable which are laid down by recognized stock exchange in India
- Conformity to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009
- Conformity with the SEBI (Issue and Listing of Debt Securities) Regulations, 2008
- Conformity to the guidelines laid down by SEBI (Debenture Trustee) Regulations, 1993

RBI Laws

- Issuance of Non Convertible Debentures (Reserve Bank) Directions, 2010, as concerned by the RBI (*applicable if maturity period is upto 1 year*)
- RBI Circular dated July 27, 2013 (Raising Money through Private Placement by NBFCs Debentures , etc.)
- Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 1998
- Master Circular on ECB Guidelines
- Consolidated FDI Policy 2013 issued by DIPP

4.38 CLASSIFICATION OF NBFCs



4.39 Practice Questions

1. What is a Merchant Banker?
2. What is the position of Merchant Banking in India?
3. What are the main provisions regarding Merchant Banking in India?
4. Define Mutual Funds.
5. How the NAV of Mutual Funds per unit is is determined?
6. Explain the rules and regulations relating to financial reporting of Mutual Funds in India.
7. What do you mean by Forensic Accounting?
8. What are the functions of Forensic Accountant?
9. What characteristics should Forensic Accountant posses?
10. Write a short note on Forensic Accounting in India.
11. Define Human Resource Accounting. Explain its objectives and characteristics.
12. Discuss the uses and merits of Human Resource Accounting.
13. Explain possible difficulties in Human Resource Accounting.
14. Discuss Historical Cost-Based Human Resource Accounting. Explain the problems involved in it.
15. Explain various methods of Human Resource Accounting. Which one would you recommend for adoption in India under the present circumstances? Give reasons.
16. What is Environmental Accounting?
17. What is Environmental Auditing and Reporting? Explain important elements of Environmental Reporting.
18. What do you understand by Corporate Social Responsibility?
19. Explain the merits and demerits of Corporate Social Responsibility.
20. What are the main provisions issued in India relating to Corporate Social Responsibility?
21. What is Non-Banking Finance Company?
22. Explain the rules relating to Non-Banking Finance Company.

Suggested Readings:

1. Jawahar Lal, "Accounting Theory", Taxman.
2. Vijay Kumar, M.P, "First Lesson on Accounting Standards", Snowwhite.
3. Glautier, H.W.E. And Undordown, B. "Accounting Theory and Practice" (Arnold Heinemann).
4. Kenneth S. Most, "Accounting Theory", Ohio Grid Inc.