Accounting Standards Rules 2006

Applicability of Accounting Standards for Companies

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

- The rules provide that Accounting Standards 1 to 7 and 9 to 29 recommended by the Institute of Chartered Accountants of India shall be the "Accounting Standards" (referred to as the "Notified Accounting Standards") for the purposes of Section 211(3A) and (3B) and section 227(3) (d) of the Companies Act, 1956.
- The notified accounting standards for the most part, are a verbatim reproduction of the Accounting Standards as issued by the Institute of Chartered Accountants of India.
- All the 30 Accounting Standards Interpretations issued by Institute of Chartered Accountants of India have been incorporated at the relevant places by way of explanation except Accounting Standards Interpretations 11, 12, 27 and 29.
- The notified Accounting Standards are mandatory for all companies and their auditors except as exempted/relaxed for SMCs.
- Exemptions /relaxations to Small and Medium Companies (SMCs) have been given.

  The definition of SMCs is much simpler than the definition of SMEs given by Institute of Chartered Accountants of India (which involved classifying enterprises and level-I Enterprises, Level-II Enterprises and Level-III Enterprises).

- AS-11 [which is exactly of AS-11(Revised 2003) issued by Institute of Chartered Accountants of India] will have overriding effect over the accounting treatment prescribed by Schedule VI in the matter of accounting for exchange differences in respect of borrowing and liability incurred for acquisition of fixed assets. [Foot Note No. 5 in AS-11]. ICAI's announcement dated 10-10-2003 to the effect that the schedule VI shall prevail over AS-11(Revised 2003) i.e. such exchange differences should be adjusted in asset account stands superseded. With the effect from the effective date of "Notified Accounting Standards" (i.e. accounting periods commencing on or after 07-12-2006), all such exchange differences will have to be adjusted in the profit and loss account instead of adjusting them in asset account.
- Presentations of consolidated financial statements remain optional as before. But if parent company opt for present consolidated financial statements, compliance with relevant accounting standards is mandatory.

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

(a) the equity dept securities of the company are not listed or in the process of listing of any stock exchange, whether in India or outside India
(b) the company is not a bank or financial institution or insurance company
(c) the company's turnover (excluding other income) does not exceed Rs.50 crore in the immediately preceding accounting year
(d) the company does not have borrowing (including public deposits) exceeding Rs. 10 crore at any time during the immediately preceding accounting year and
(e) The company is not a holding company or subsidiary of a non-SMC

Enterprise

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

Exemptions/relaxations to SMCs –

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

- SMCs need not to prepare cash flow statement as per AS-3 and need not to disclose the segment reporting as AS-17.
- The SMCs have been given following relaxation as regards AS-15 "Employee Benefits"
  - SMCs need not comply Para 11 to 16 of AS-15 to extent date deal with recognition and measurement of short-term accumulated compensating absences.
  - Discounting the amount payable after 12 months of balance sheet as regards defined contribution plans and termination benefits.
  - Recognition, measurement and disclosure principles in respect of defined benefit plans and other long-term employee benefits plan. However such enterprises should provide and disclose the accrued liability in respect of defined benefit plan and other long-term employee benefit plan as per actuarial valuation based on projected unit credit method and discount rate based on yield on Government bonds.
- SMCs need not disclose diluted EPS as AS-20 "Earning per Share"
- SMCs need not comply with disclosure requirements regarding operating leases of sub-Para (b) & (d) of Para 46 and sub-Para (a), (b) & (e) 25 of Para 25 of AS-19 "Leases" and sub-Para (a) & (f) of Para 37 and sub-Para (c), (e) & (f) of Para 22 of AS-19 regarding disclosure for finance lease by the lessor and lessee respectively.
- Value-in-use has been differently defined for SMCs which provides and alternate to calculate value-in –use based on a reasonable estimate of future cash flows.
- SMCs are exempt from disclosure requirements of Para 66 and 67 of AS-29 regarding provisions and its descriptions.

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

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

Change in status of the company

(a) From SMC to Non- SMC -Where a company, being an SMC, has qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be an SMC. The fact that the company was an SMC in the previous period and it has availed of the exemptions or relaxations available to SMC shall be disclosed in the notes to the financial statements.

***(b) From Non-SMC to SMC* -** An existing company, which was previously not a SMC and subsequently becomes an SMC, shall not be qualified for exemption or relaxation in respect of accounting standards available to an SMC until the company remains an SMC for two consecutive accounting periods.

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

- The SMC which does not disclose certain information pursuant to the exemptions or relaxations given to its shall disclose the fact that it is an SMC and has complied with the accounting standards insofar s they are applicable to an SMC on the following
  "The Company is a SMC as defined in the general instruction in respect of accounting standards noticed under the Companies Act, 1956. Accordingly, the company has complied with the accounting standards as applicable to a SMC"
- If am SMC opts not to avails of the exemptions or relaxations available to an SMC is respect of any but not all of accounting standards, it shall disclose the standard(s) in respect of which it has availed the exemption or relaxations
- If an SMC desires to disclose the information not required to be disclosed pursuant to the exemptions or relaxations available to the SMCs, it shall disclose that information in compliance with the relevant accounting standards
- The SMC may opt for availing certain exemptions or relaxations from compliances with the requirements prescribed in an accounting standard provided that such a partial exemptions or relaxations and disclosures shall not be permitted to mislead any person or public.