

EXPOSURE DRAFT

Accounting Standard for Local Bodies (ASLB) 3

Accounting Policies, Changes in Accounting Estimates and Errors (Based on corresponding IPSAS 3)

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Issued by

The Committee on Accounting Standards for Local Bodies

The Institute of Chartered Accountants of India
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New Delhi

Exposure Draft

Accounting Standard for Local Bodies (ASLB)

Accounting Policies, Changes in Accounting Estimates and Errors

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INVITATION TO COMMENTS

The Committee on Accounting Standards for Local Bodies of the Institute of Chartered Accountants of India invites comments on any aspect of this Exposure Draft of the Accounting Standard for Local Bodies (ASLB) 3, 'Accounting Policies, Changes in Accounting Estimates and Errors'. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

*Comments should be submitted in writing to the Secretary, Committee on Accounting Standards for Local Bodies, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than **June 10, 2014**. Comments can also be sent by e-mail at caslb@icai.in.*

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Accounting Policies, Changes in Accounting Estimates and Errors

*(This Accounting Standard includes paragraphs set in **bold italic** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. This Accounting Standard should be read in the context of its objective and the Preface to the Accounting Standards for Local Bodies¹)*

The Accounting Standard for Local Bodies (ASLB) 3, 'Accounting Policies, Changes in Accounting Estimates and Errors', issued by the Council of the Institute of Chartered Accountants of India, will be recommendatory in nature in the initial years for use by the local bodies. This Standard will be mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned².

The following is the text of the Accounting Standard for Local Bodies

Objective

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the (a) accounting treatment and disclosure of changes in accounting policies, (b) changes in accounting estimates, and (c) the corrections of errors. This Standard is intended to enhance the relevance and reliability of an entity's financial statements, and the comparability of those financial statements over time and with the financial statements of other entities.

¹ Attention is specifically drawn to paragraph 4.2 of the 'Preface to the Accounting Standards for Local Bodies', according to which Accounting Standards are intended to apply only to items which are material.

² Reference may be made to the paragraph 7.1 of the 'Preface to the Accounting Standards for Local Bodies' providing the discussion on the compliance with the Accounting Standards for Local Bodies.

2. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in ASLB 1, '*Presentation of Financial Statements*'.

Scope

3. This Standard should be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates, and corrections of prior period errors.
4. [Refer to Appendix 1]
5. This Standard applies to entities described as local bodies in the Preface to the Accounting Standards for Local Bodies³.
6. [Refer to Appendix 1]

Definitions

7. The following terms are used in this Standard with the meanings specified:

Accounting policies are the specific principles, bases, conventions, rules, and practices applied by an entity in preparing and presenting financial statements.

A **change in accounting estimate** is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not correction of errors.

Impracticable Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively if:

- (a) The effects of the retrospective application is not determinable
- (b) The retrospective application requires assumptions about what management's intent would have been in that period; or
- (c) The retrospective application requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
 - (i) Provide evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured, or disclosed; and
 - (ii) Would have been available when the financial statements for that prior period were authorised for issue from other information.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or a misuse of, reliable information that:

- (a) was available when financial statements for those periods were authorised for issue; and

³ Refer paragraph 1.3 of the 'Preface to the Accounting Standards for Local Bodies'.

- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Prospective application of a change in accounting policy, and of recognising the effect of the change in the accounting estimate, respectively, are:

- a. applying the new accounting policy to transactions, other events, and conditions occurring after the date as at which the policy is changed;
- b. recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

Retrospective application is applying a new accounting policy to transactions, other events, and conditions as if that policy had always been applied.

Material Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Materiality

8. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the local bodies and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Accounting Policies

Selection and Application of Accounting Policies

9. When an ASLB specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item should be determined by applying the Standard.
10. ASLBs set out accounting policies that result in financial statements containing relevant and reliable information about the transactions, other events, and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from ASLBs to achieve a particular presentation of an entity's financial position, financial performance, or cash flows.

- 11.** ASLBs are accompanied by guidance to assist entities in applying their requirements. All such guidance states whether it is an integral part of ASLBs. Guidance that is an integral part of ASLBs is mandatory. Guidance that is not an integral part of ASLBs does not contain requirements for financial statements.
- 12.** In the absence of an ASLB that specifically applies to a transaction, other event, or condition, management shall use its judgment in developing and applying an accounting policy that results in information that is:
- (a)** Relevant to the decision-making needs of users; and
 - (b)** Reliable, in that the financial statements:
 - i)** Represent faithfully the financial position, financial performance, and cash flows of the entity;
 - ii)** Reflect the economic substance of transactions, other events, and conditions and not merely the legal form;
 - iii)** Are neutral, i.e., free from bias;
 - iv)** Are prudent; and
 - v)** Are complete in all material respects.
- 13.** Paragraph 12 requires the development of accounting policies to ensure that the financial statements provide information that meets a number of qualitative characteristics.
- 14.** In making the judgment, described in paragraph 12, management should refer to, and consider the applicability of, the following sources in descending order:
- (a)** The requirements in ASLBs dealing with similar and related issues; and
 - (b)** The definitions, recognition and measurement criteria for assets, liabilities, revenue and expenses described in other ASLBs.
- 15.** In making the judgment described in paragraph 12, management may also consider the following in descending order (a) the most recent pronouncements of the Institute of Chartered Accountants of India e.g., Accounting Standards and Guidance Notes on Accounting. Such pronouncements also include 'Framework for the Preparation and Presentation of Financial Statements' (b) International Public Sector Accounting Standards issued by International Public Sector Accounting Standards Board, and (c) accepted accounting practices in Local Bodies or in private sector, but only to the extent that these do not conflict with the sources in paragraph 14.

Consistency of Accounting Policies

- 16.** An entity should select and apply its accounting policies consistently for similar transactions, other events, and conditions, unless an ASLB specifically requires or permits categorisation of items for which different policies may be appropriate. If an ASLB requires or permits such categorisation, an appropriate accounting policy should be selected and applied consistently to each category.

Changes in Accounting Policies

- 17.** An entity should change an accounting policy only if the change:
- (a)** is required by an ASLB; or
 - (b)** results in the financial statements providing reliable and more relevant information about the effects of transactions, other events,

and conditions on the entity's financial position, financial performance, or cash flows; or.

(c) if the adoption of the different accounting policy is required by a statute.

18. Users of financial statements need to be able to compare the financial statements of an entity over time to identify trends in its financial position, performance, and cash flows. Therefore, the same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria in paragraph 17.

19. A change from one basis of accounting to another basis of accounting is a change in accounting policy.

20. A change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting is regarded as a change in accounting policy.

21. The following are not changes in accounting policies:

(a) The application of an accounting policy for transactions, other events or conditions that differ in substance from those previously occurring; and

(b) The application of a new accounting policy for transactions, other events, or conditions that did not occur previously or that were immaterial.

22. The initial application of a policy to revalue assets in accordance with ASLB 5, 'Property, Plant and Equipment', is a change in accounting policy to be dealt with as a revaluation in accordance with ASLB 5, 'Property, Plant and Equipment', rather than in accordance with this Standard.

23. Paragraphs 24–36 do not apply to the change in accounting policy described in paragraph 22.

Applying Changes in Accounting Policies

24. Subject to paragraph 28:

(a) An entity should account for a change in accounting policy resulting from the initial application of an ASLB in accordance with the specific transitional provisions, if any, in that Standard; and

(b) When an entity changes an accounting policy upon initial application of an ASLB that does not include specific transitional provisions applying to that change, or change an accounting policy voluntarily, it should apply the change retrospectively.

25. For the purpose of this Standard, early application of an ASLB, where permitted, is not a voluntary change in accounting policy.

26. In the absence of an ASLB that specifically applies to a transaction, other event, or condition, management may, in accordance with paragraphs 14 and 15 apply an accounting policy from (a) the most recent pronouncements of the Institute of Chartered Accountants of India e.g., Accounting Standards and Guidance Notes on Accounting. Such pronouncements also include 'Framework for the

Preparation and Presentation of Financial Statements' and (b) International Public Sector Accounting Standards issued by International Public Sector Accounting Standards Board. and (c) accepted accounting practices in Local Bodies or in private sector, but only to the extent that these do not conflict with the sources in paragraph 14.

Retrospective Application

27. Subject to paragraph 28, when a change in accounting policy is applied retrospectively in accordance with paragraph 24(a) or (b), the entity should adjust the opening balance of each affected component of equity for the current period. Usually, the adjustment is made in the opening balance of accumulated surplus or deficit. However, the adjustment may be made to the another component of equity (for example, to comply with an ASLB) as if the new accounting policy had always been applied.

Limitations on Retrospective Application

28. When retrospective application is required by paragraph 24(a) or (b), a change in accounting policy should be applied retrospectively, except to the extent that it is impracticable to determine the period-specific effect or cumulative effect of the change.

29. When it is impracticable to determine the period-specific effects of changing an accounting policy, the entity should apply the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and should make a corresponding adjustment to the opening balance of each affected component of equity for current period.

30. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the entity should apply the new accounting policy prospectively from the earliest date practicable .

31. [Refer to Appendix-1]

32. When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods , the entity, in accordance with paragraph 30, applies the new accounting policy prospectively from the start of earliest period practicable. It therefore disregards the portion of cumulative adjustment to assets, liabilities, and equity arising from before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs 56–58 provide guidance when it is impracticable to apply a new accounting policy to one or more prior periods.

33. When initial application of an ASLB (a) has an effect on the current period or any prior period, (b) would have such an effect, except that it is impracticable to determine the amount of the adjustment, or (c) might have an effect on future periods, an entity should disclose:

- (a) The title of the Standard;**
- (b) When applicable, that the change in accounting policy is made in accordance with its transitional provisions;**
- (c) The nature of the change in accounting policy;**
- (d) When applicable, a description of the transitional provisions;**
- (e) When applicable, the transitional provisions that might have an effect on future periods;**
- (f) For the current period the amount of the adjustment for each financial statement line item affected;**
- (g) The amount of the adjustment relating to periods before those presented, to the extent practicable;**
- (h) If retrospective application required by paragraph 24(a) or (b) is impracticable for a particular prior period, , the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied; and**

Financial statements of subsequent periods need not repeat these disclosures.

34. When a voluntary change in accounting policy (a) has an effect on the current period or any prior period, (b) would have an effect on that period, except that it is impracticable to determine the amount of the adjustment or (c) might have an effect on future periods, an entity should disclose:

- (i) The nature of the change in accounting policy;**
- (ii) The reasons why applying the new accounting policy provides reliable and more relevant information;**
- (iii) For the current period, to the extent practicable, the amount of the adjustment for each financial statement line item affected;**
- (iv) The amount of the adjustment relating to periods before those presented, to the extent practicable; and**
- (v) If retrospective application is impracticable for a particular prior period, , the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.**

Financial statements of subsequent periods need not repeat these disclosures.

35. [Refer to appendix 1]

36. [Refer to Appendix 1]

Changes in Accounting Estimates

37. As a result of the uncertainties inherent in delivering services, conducting trading, or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves

judgments based on the latest available, reliable information. For example, estimates may be required of:

- (a) Tax revenue due to government;
- (b) Bad debts arising from uncollected taxes;
- (c) Inventory obsolescence;
- (d) The fair value of financial assets or financial liabilities, where applicable; and
- (e) The useful lives of, or expected pattern of consumption of future economic benefits or service potential embodied in depreciable assets, or the percentage completion of road construction.

38. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
39. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.
40. A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.
- 41. The effect of a change in an accounting estimate, other than a change to which paragraph 42 applies, should be recognised prospectively by including it in surplus or deficit in:**
- (a) The period of the change, if the change affects the period only; or**
 - (b) The period of the change and future periods, if the change affects both.**
- 42. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it should be recognised by adjusting the carrying amount of the related asset, liability, or /equity item in the period of change.**
43. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events, and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit, or the surplus or deficit of both the current period and future periods. For example, a change in the estimate of the amount of bad debts affects only the current period's surplus or deficit, and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of economic benefits or service potential embodied in, a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as revenue or expense in the current period. The effect, if any, on future periods is recognised in future periods.

Disclosure

- 44. An entity should disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect on future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.**
- 45. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, the entity should disclose that fact.**

Errors

- 46. Errors can arise in respect of the recognition, measurement, presentation, or disclosure of elements of financial statements. Financial statements do not comply with ASLB if they contain either material errors, or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance, or cash flows. Potential current period errors discovered in that period are corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period.**
- 47. An entity should correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by adjusting the opening balance of the assets, liabilities and the equity for the current period.**

Limitations on correcting errors retrospectively

- 48. [Refer to Appendix-1]**
- 49. [Refer to Appendix-1]**
- 50. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity should correct prospectively from the earliest date practicable.**
- 51. The correction of a prior period error is excluded from surplus or deficit for the period in which the error is discovered.
- 52. When it is impracticable to determine the amount of an error (eg. mistake in applying an accounting policy) for all prior period, the entity in accordance with paragraph 50 corrects the error prospectively from the earliest date practicable. It, therefore, disregards the portion of the cumulative adjustment in respect of assets, liabilities and equity arising before that date. Paragraphs 55-58 provide guidance on when it is impracticable to correct an error for one or more prior periods.
- 53. Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates by their nature are approximations that may need revision as additional information becomes known. For example, the gain or loss recognised on the outcome of a contingency is not the correction of an error.

Disclosure of Prior Period Errors

54. In applying paragraph 47, an entity should disclose the following:

- (a) The nature of the prior period error;**
- (b) For the current period, to the extent practicable, the amount of the correction for each financial statement line item affected ;**
- (c) The amount of the correction at the beginning of the current period.**

Financial statements of subsequent periods need not repeat these disclosures beyond.

Impracticability in Respect of Retrospective Application

55. In some circumstances, it is impracticable to apply retrospectively a change in accounting policy or correct a prior period error. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs 56–58, its prospective application to prior periods) or to correct a prior period error, and it may be impracticable to re-create the information.

56. It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events, or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy because of the longer period of time that might have passed since the affected transaction, other event, or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event, or condition occurred.

57. Therefore, retrospectively applying a new accounting policy requires distinguishing information that:

- (a) Provides evidence of circumstances that existed on the date(s) as at which the transaction, other event, or condition occurred; and
- (b) Would have been available when the financial statements for that prior period were authorised for issue; from other information. For some types of estimates (e.g., an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

58. Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured, or disclosed in a prior period. For example,

when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with ASLB on, 'Employee Benefits'⁴, it disregards information about an unusually severe influenza season during the next period that becomes available after the financial statements for the prior period were approved for issue. The fact that significant estimates are frequently required does not prevent reliable adjustment or correction of the error in the current period.

Effective Date

59. [Refer to Appendix-1]

59 A. [Refer to Appendix-1]

60. [Refer to Appendix-1]

⁴ The Accounting Standard for Local Bodies is under formulation.

Appendix 1

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 3 and the corresponding International Accounting Standard (IPSAS) 3, 'Accounting Policies, Changes in Accounting Estimates and Errors'.

COMPARISON WITH IPSAS 3, ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS'

1. Paragraph pertaining to exclusion of the tax effects of correction of prior period errors have been deleted from the exposure draft ASLB 3 as the same is not relevant for Local Bodies in India. However, paragraph number 4 has been retained in order to maintain consistency with IPSAS 3.
2. Paragraph 6 of IPSAS 3 which provides that Government Business Enterprises should use IFRSs, has been deleted, as it is not relevant for the exposure draft ASLB 3, which is applicable to Local Bodies in India. However, paragraph number has been retained in exposure draft ASLB 3 in order to maintain consistency with ASLB 3.
3. The concept of retrospective restatement has been removed in the exposure draft ASLB 3, as it would be difficult for the Local Bodies to apply since Local Bodies in India are at very initial stage of implementing accrual accounting. Consequential changes due to this change have also been made in the exposure draft.
4. Exposure draft ASLB 3 provides for an additional condition for change in accounting policy by an entity ,i.e., an entity can change its accounting policy if it is required by a statute, which is not there in IPSAS 3.
5. As per IPSAS 3, an entity shall correct the error by restating the comparative amounts for prior period(s) presented in which the error occurred and if the error occurred before the earliest prior period presented, restating the opening balance of assets /equity for the earliest prior period presented whereas according to exposure draft ASLB 3, an error is corrected in the current year by adjusting the opening balance of assets, liabilities and the equity for the current period. Consequential changes have been made. However, paragraph numbers have been retained in order to maintain consistency with IPSAS 3.
6. Paragraphs relating to effective date have been removed as the exposure draft ASLB 3 would become mandatory for Local Bodies in a state from the date specified by the State Government concerned. Paragraph numbers have been retained in order to maintain consistency with IPSAS 3.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard for Local Bodies. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard for Local Bodies (ASLB) 3 and the existing Accounting Standard (AS) 5, 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' issued by the Institute of Chartered Accountants of India.

COMPARISON WITH EXISTING AS 5, 'NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES'

1. The objective of the existing AS 5 is to prescribe the classification and disclosure of certain items in the statement of profit and loss for uniform preparation and presentation of financial statements. The objective of exposure draft ASLB 3 is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.
2. The existing AS 5 restricts the definition of accounting policies to specific accounting principles and the methods of applying those principles while exposure draft ASLB 3 broadens the definition to include bases, conventions, rules and practices (in addition to principles) applied by an entity in the preparation and presentation of financial statements.
3. Exposure draft ASLB 3 specifically states that an entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an ASLB specifically requires or permits categorisation of items for which different policies may be appropriate. Existing AS 5 does not specifically require accounting policies to be consistent for similar transactions, other events and conditions.
4. Certain additional definitions such as 'change in accounting estimate', 'impracticable', 'prospective application' and 'retrospective application' etc. have been provided in exposure draft ASLB 3, whereas the same are not provided in the existing AS 5.
5. Exposure draft ASLB 3 requires that changes in accounting policies should be accounted for with retrospective effect subject to limited exceptions, viz., where it is impracticable to determine the period specific effects or the cumulative effect of applying a new accounting policy. On the other hand, the existing AS 5 does not specify how change in accounting policy should be accounted for.
6. The existing AS 5 defines prior period items as incomes or expenses which arise in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods. Exposure draft ASLB 3 uses the term prior period errors and relates it to errors or omissions arising from a failure to use or misuse of reliable information (in addition to mathematical mistakes, mistakes in application of accounting policies etc.) that was available when the financial statements of the prior periods were approved for issuance and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Exposure draft

ASLB 3 specifically states that errors include frauds, which is not covered in existing AS 5.

7. Exposure draft ASLB 3 requires rectification of material prior period errors with retrospective effect subject to limited exceptions viz., where it is impracticable to determine the cumulative effect of an error on all prior periods. On the other hand, existing AS 5 requires the rectification of prior period items with prospective effect.
8. Keeping in view that ASLB 1, *Presentation of Financial Statements*, is silent about the presentation of any items of income or expense as extraordinary items, this standard does not deal with the same, which at present is dealt with by the existing AS 5.
9. Disclosure requirements given in Exposure draft ASLB 3 are more detailed as compared to the disclosure requirements given in the existing AS 5.