CHECKLIST FOR COMPLIANCE OF ACCOUNTING STANDARDS

The Checklist is designed to assist accountants, auditors, audit committee members, etc. in verifying compliance with Accounting Standards issued by ICAI.

MEMBERS DUTY IN RESPECT OF ACCOUNTING STANDARDS

The Preface to the Statements of Accounting Standards issued by ICAI states that while discharging their attest functions, it will be the duty of members of ICAI to ensure that the Accounting Standards are implemented in the presentation of financial statements covered by their audit reports. In the event of any deviation from the Standards, it will be also their duty to make adequate disclosure in their reports so that the users of such financial statements may be aware of such deviations.

ACCOUNTING STANDARDS AND THE COMPANIES ACT

Section 217(2AA) requires that the board's report should include a directors responsibility statement indicating therein that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures; that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period; that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and that the directors had prepared the annual accounts on a going concern basis.

Section 211 (3B) requires where the profit and loss account and the balance sheet of the company do not comply with the accounting standards, such companies shall disclose in its profit and loss account and the balance sheet, the following: the deviation from the accounting standards; the reasons for such deviation; and the financial effect, if any arising due to such deviations.

QUESTIONNAIRE FOR ASCERTAINING COMPLIANCE

AS -1—DISCLOSURE OF ACCOUNTING POLICIES

QUESTIONNAIRE FOR ASCERTAINING COMPLIANCE OF AS-1

				YES/No	Remark
1)	Are the following fundamental accounting assumptions followed :				
	(a)	Going concern concept (Note, the concept shall be evaluated with reference to foreseeable period of one year)?			
	(b)	Consistency in accounting policies?			
	(c)	Accrual basis of preparing Financial Statement?			
2)	If answer to any of the above is in negative, has disclosure been made?				
3)	Have significant accounting policies been listed out and disclosed at one place as part of financial statement?				
4)	Is there any change in accounting policy:				
	(a)	(i)	Which has a material effect in current period?		
		(ii)	If yes, whether disclosed with quantification?		
		(iii)	If no, whether indicated the fact, that not possible?		
	(b)	(i)	Which has a material effect in later period?		
		(ii)	If yes, whether disclosed?		

AS -2—VALUATION OF INVENTORIES (REVISED)

QUESTIONNAIRE FOR ASCERTAINING COMPLIANCE OF AS-2

				YES/No	Remark
1)	(a)	Is the inventory valued at lower of cost and net realisable value?			
	(b)	Is the disclosure made to that effect in accounting policy?			
2)	(a)	Which is the cost formula used			
		(i)	Specific identification ?		
		(ii)	FIFO?		
		(iii)	Weighted Average?		
	(b)	Is the disclosure made to that effect in accounting policy?			
3)	Have you ascertained whether cost includes				
	(a)	Cost of purchase (net of Modvatable duties)?			
	(b)	Direct labour ?			
	(c)	Production overheads?			
	(d)	Such other direct cost to bring inventory to their present location and condition?			
4)	Whether fixed overhead is worked out on normal production capacity; i.e., after taking into account loss of capacity due to planned maintenance?				
5)	Have you ascertained that cost of conversion does not include the following :				
	(a)	Interest, (Unless permitted by AS-16)?			
	(b)	Administrative overheads?			
	(c)	Selling and distribution cost ?			
	(d)	Abnormal wastage of material, labour and other production cost?			
6)	If standard cost, as a technique of measurement is followed to ascertain cost, whether standards reviewed periodically?				
7)	In arriving at cost of inventory, whether				
	(a)	Inter-divisional profit eliminated ?			
	(b)	Foreign currency fluctuation excluded and charged as expense in respect of foreign currency loan obtained against stock?			
8)	(a)	Is physical verification of inventory taken at year end?			
	(b)	In arriving at net realisable value, have you ascertained			
		(i)	Damaged/obsolete/non-moving stock?		
		(ii)	Subsequent sale price after Balance Sheet Date?		
9)	Are the inventory in account classified into :				
	(a)	Raw material and components?			
	(b)	Stores and spares and tools?			
	(c)	Work-in-progress?			
	(d)	Finished goods?			

AS -3—CASH FLOW STATEMENTS

QUESTIONNAIRE FOR ASCERTAINING COMPLIANCE OF AS-3

			YES/No	Remark
1)	If the enterprise			
	(a)	A listed company?		
	(b)	Business enterprise having turnover exceeding Rs. 50 crores?		
	(c)	If yes to any of above, is cash flow statement prepared under indirect method?		
	(d)	Is necessary reference of cash flow statement made in the Audit Report?		
2)	Depending upon the principal activity of the enterprise, is the classification of items in the cash flow appropriate made into operating, financing and investment activities?			

3)	Are the following items specifically addressed			
	Interest Income or Expense?			
	Dividends Paid or Received?			
	– Income Tax Paid or Refunds ?			
	Conversion Gains or Losses in banks accounts denominated in foreign currency?			
	Effect of business acquisition or divestments?			
	Investment in subsidiaries, equity affiliates and joint venture?			
	Cash flows of foreign operations?			
4)	Whether non-cash transactions like following are excluded from Cash Flow Statement			
	(a)	Acquisition of assets by assuming related liabilities?		
	(b)	Acquisition of an enterprise by issue of shares?		
	(c)	Conversion of debt into equity?		

AS -4—CONTINGENCIES AND EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

QUESTIONNAIRE FOR ASCERTAINING COMPLIANCE OF AS-4

			YES/No	Remark
1)	Are contingent liabilities disclosed in accounts by way of notes as to its amount, nature and uncertainties which may affect the future outcome?			
2)	(a)	Out of the contingent liability, have you come across any item which is probable to result in a loss to the enterprise?		
	(b)	If yes, whether provision is made?		
3)	Have you ascertained that no contingent gains are recognised as income?			
4)	(a)	Have you inquired about events occurring after balance sheet date?		
	(b)	Are any adjustments required to be made in accounts, relating thereto.		
	(c)	If not made, whether disclosed with quantification?		

AS -5— NET PROFIT/LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES

QUESTIONNAIRE FOR ASCERTAINING COMPLIANCE OF AS-5

(Net Profit or Loss for the Period. Prior Period Items and Changes in Accounting Policies)

				YES/No	Remark
1)	(a)	Has any of the following transaction/event taken place during the year.			
		(i)	Write down/back of inventories?		
		(ii)	Restructuring Cost?		
		(iii)	Disposal of Fixed Assets?		
		(iv)	Disposal of long-term investments?		
		(v)	Legislative changes having retrospective application?		
		(vi)	Litigation Settlement?		
		(vii)	Reversal of Provisions?		
	(b)	If yes, are the same disclosed separately or by way of note?			
	(c)	If yes, are the same not considered as extraordinary items?			
2)	(a)	Have you come across any extraordinary item of income or expense clearly distinct from ordinary activities of the enterprise?			
	(b)	Have you come across any income or expense, which has arisen due to error or omission in the preparation of financial statement of one or more prior periods?			
	(c)	If yes to either a or b, have the amount for each item disclosed separately in P and L A/c, in the manner that its impact on current profit/loss can be perceived?			
3)	(a)	Has the enterprise during the year revised any of its estimates?			
	(b)	If yes, and if such change has material effect in current period or subsequent			

		period whether the nature and amount of such change disclosed?			
	(c)	If no to (b) above, is the reason for non-quantification disclosed?			
4)	(a)	Whether the enterprise has revised any accounting policies?			
	(b)	If yes, have you ensured that the change is required to be made because:			
		(i)	Of statute or		
		(ii)	For compliance with AS or		
		(iii)	Such change would result in a more appropriate presentation of the financial enterprise.		
	(c)	If the change in accounting policy has a material effect, whether such change is quantified so as to reflect the effect of such change?			
	(d)	If change in accounting policy, which is material and is not ascertainable whether such fact is disclosed in notes?			
	(e)	If change in accounting policy has no material effect for the current period but is expected to have material effect in later periods, whether such change has been appropriately disclosed?			
	(f)	Is change in accounting policy arising upon adoption of an Accounting Standard made as per AS-5, unless the transitional provisions of the other Accounting Standard requires alternative disclosure?			

AS - 6—DEPRECIATION ACCOUNTING

QUESTIONNAIRE FOR ASCERTAINING COMPLIANCE OF AS-6

				YES/No	Remark
1)	Which method of depreciation is followed by the enterprise:				
	(a)	Straight line method?			
	(b)	Written down value method?			
	(c)	Any other method?			
2)	(a)	Are the rates prescribed in Sch. XIV followed, to the extent that these are minimum rates?			
	(b)	If no, are higher rates followed?			
	(c)	If yes, whether disclosed the same in account policy?			
3)	(a)	Whether, historical cost of Fixed Asset has undergone a change due to exchange fluctuation?			
	(b)	If yes, whether depreciation on such amount provided prospectively over the residual useful life of the asset?			
4)	(a)	Is the method of providing depreciation changed during the year:			
	(b)	If yes, whether depreciation as per new method recalculated retrospectively?			
	(c)	If yes, whether deficiency/surplus adjusted in P and L A/c.?			
	(d)	Whether such change has been treated as a change in accounting policy and its effect quantified and disclosed so as to reflect the effect of such change in account as per AS-5?			
5)	(a)	Have the fixed assets been revalued?			
	(b)	If yes, is depreciation provided based on			
		(i)	Revalued amount? and		
		(ii)	On the estimate of the remaining useful life of such assets?		
	(c)	If yes, how is the additional depreciation on revalued asset accounted.			
		(i)	By charging to Profit and Loss Account?		
		(ii)	By recouping from revaluation reserve?		
6)	Is additional/extension to existing asset (not retaining a separate identity) depreciated over the remaining useful life of the asset?				
7)	Is addition/extension to existing asset (retaining a separate identity) depreciated independent of the original asset based on the assessment of it own useful life?				

8)	In respect of Intangible Assets, whether amortisation is done as prescribed in AS-26?			

AS - 7— ACCOUNTING FOR CONSTRUCTION CONTRACTS

QUESTIONNAIRE FOR ASCERTAINING COMPLIANCE OF AS-7

			YES/No	Remark
1)	Is the enterprise involved in :			
	(a)	Contracts for constructions of dams, buildings, roads, ships, refineries, pipeline? or		
	(b)	Contracts for the rendering of services, directly related to the construction of the asset?		
2)	If yes to 1 above, is revised AS-7 followed in respect of construction contracts entered into on or after 1-4-2003?			
3)	How many contracts at the year end are of :			
	(a)	Fixed Price Contracts ? ____________		
	(b)	Cost Plus Contracts ? ____________		
4)	Are the following cost considered as direct cost to the contract cost?			
	(a)	Site labour cost?		
	(b)	Material costs used in construction?		
	(c)	Depreciation of machinery used for the contract?		
	(d)	Cost of moving machinery and materials to and from contract site?		
	(e)	Cost of hiring machinery for the contract?		
	(f)	Cost of design/technical assistance directly related to contract?		
	(g)	Estimated cost of :		
		(i) Rectification?		
		(ii) Guarantee, including warranty costs?		
	(h)	Claims from third party relating to contract?		
5)	Are following attributable cost, allocated to the contract costs?			
	(a)	Insurance on materials/machinery?		
	(b)	Construction overheads?		
	(c)	Interest cost (if permissible under AS-16)?		
6)	Are the following cost excluded from contract costs :			
	(a)	General administration cost for which reimbursement is not specified in the contract?		
	(b)	Selling cost?		
	(c)	Depreciation of idle plant not used for a particular contract?		
7)	In recognising revenue under fixed price contract, are all the following conditions satisfied:			
	(a)	Total contract revenue can be measured reliably?		
	(b)	Both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably?		
	(c)	Contract costs can be clearly identified and measured reliably, so that actual cost incurred can be compared with prior estimates?		
8)	In recognising revenue under cost plus contract, can contract costs be clearly identified and measured reliably?			
9)	Is contract revenue in case of fixed price contract or cost plus contract recognised using the percentage of completion method?			
10)	Which of the following method is determined to ascertain the stage of completion of the contract?			
	(a)	The proportion of contract costs incurred bears to the estimated total contract costs?		
	(b)	Survey of work performed?		

	(c)	Completion of physical proportion of the contract work?		
11)		Are contract cost of following nature, recovery of which may not be probable, expensed as and when incurred?		
	(a)	Which are not enforceable (validity in question)?		
	(b)	Completion subject to pending litigation or legislation?		
	(c)	Relating to property likely to be condemned (forfeited) or expropriated (dispossessed)?		
	(d)	Where customer unable to meet obligation?		
	(e)	Where contractor unable to complete contract or meet obligations under contract?		
12)		Is expected loss (when contract cost exceeds contract revenue) recognised as an expense, disregarding whether or not work has commenced on the contract or stage of completion of contract activity?		
13)		Have the following been disclosed in the financial statements :		
	(a)	Amount of contract revenue recognised as income?		
	(b)	The methods used to determine contract revenue?		
	(c)	The method used to determine the stage of completion of contract-in-progress?		
	(d)	The aggregate amount of cost incurred and recognised profits/losses up to the reporting date?		
	(e)	The amount of advances received? and		
	(f)	The amount of retentions?		
14)		Have the following been presented in the Balance Sheet :		
	(a)	Gross amount due from customers for contract work as an asset?		
	(b)	Gross amount due to customers for contract work as a liability?		

AS - 9— REVENUE RECOGNITION

QUESTIONNAIRE FOR ASCERTAINING COMPLIANCE OF AS-9

			YES/No	Remark
1)		In case of sale of goods whether the revenue is recognised only when all significant risk and rewards of ownership have been transferred to the buyer and the enterprise has retained no effective control of the goods transferred?		
2)		In case of rendering of services, whether the revenue is recognised on :		
	(a)	Completed service contract method? or		
	(b)	Proportional completion method?		
3)		In case of Interest, Royalties and Dividends, whether the revenue recognised as under :		
	(a)	Interest on time basis?		
	(b)	Royalties in accordance with terms of agreement?		
	(c)	Dividend from investments in share when right to receive established.		
4)	(a)	Have you ascertained that when significant uncertainty exists as to the consideration or measurability, the revenue recognition is postponed and shall be recognised as revenue of the period in which the uncertainty is resolved?		
	(b)	Have you ascertained that adequate provision is made for expenses to be incurred for future when revenue has been fully recognised in accounts; e.g., warranties on product sold, services to be rendered for which full fees collected etc.?		
5)	(a)	Is revenue recognised on accrual basis?		
	(b)	If revenue recognition is postponed, the circumstance for such postponement has been disclosed?		
6)		Is excise duty, paid on goods sold disclosed on the face of profit & loss statement by way of deduction from turnover/sales?		

(Continued .. in next issue)