IMPORTANT QUESTIONS & GUIDANCE NOTES

Important Questions

Q.-1 Short notes on ASB (Accounting Standard Board)

Ans. **Accounting Standard Board**;

- constituted by ICAI in 1974.
- to formulate Accounting Standards for Indian companies.
- It consists of fairly Broad based composition and ever interested group;
  - -- it consists of members and nominees of following institutions

- ICAI	- SEBI	- Other renowned professions in the field of finance.
- ICWAI	- CG	
- ICSI	- CAG	
- RBI	- CBEC	

Q. -2 NACAS (Sec. 210A)

Ans. – Accounting standard are formulated by Accounting Standard Board.

- Companies Act gives recognition to Accounting Standards of ICAI by virtue of Sec. 211 (3C).
- It says that CG will consult with the NACAS and notify Accounting standards to be applied on companies.
- Untill then, ICAI's Accounting Standards will remain the same for companies.
- On December, 2006, CG notified 1 – 7 and 9 – 29 as Accounting standards for this purpose.

Q.-3 Need of convergence with IFRS.

Ans.
- Development of E-commerce.
- More and more MNC's are coming to India.
- Indian Companies are getting listed on stock exchanges of other countries of the world.
- Investor's ease.
- Remove incomparability of the financial statements of the company with those outside India.

Q.-4 Benefits of convergence with IFRS.

Ans. The Economy;

- Increase in International Business.
- Orderly and efficient market growth.
- encourage international investment.

The investor;

- More intelligibility of Financial Statements.
- Better decisions and understanding.

- reliability and confidence.

The Industry;

- Raise capital from abroad.
- less complex issues.
- Burden of MNC's of different report requirement in different countries will lesson.

The Professionals;

- Less litigation.
- More better public service.
- service to Outside countries also.

Q.-5 Reasons for departure from IFRS.

Ans. Legal and regulatory requirements.

- Laws different and so do requirements.

e.g. In AS -21, 'control' means more than 'half', whereas in IAS, Its substantial power to achieve benefit.

- Economic environment.

It plays important role while forming accounting standards.
E.g. AS-13 required value Investment @ lower of coast and Market Value. Whereas IAS says it to be Fair Value. It is because Indian Market is not higher in length and deeper in breadth to give reliable Fair Value.

- Level of Preparedness.
  - Instant application will cause hardship.
  - & IAS's doesn't contain transitional measures in AS-15 so as to allow deferment of expenses which was not there in IAS.

- Conceptual Difference.

Different in concept as time of accrual and due and recognition or certainty of amount.

Guidance Notes

[A] **<u>Guidance note on guarantee and counter-guarantee give by companies</u>.**

Guarantee : Given by company for some 3rd party or own.

Counter –Guarantee : Given by company to bank who stood guarantee to 3rd party on company's behalf.

1. Guarantees:

a. <u>Accounting effect of any guarantee furnished for a loan taken which is already recorded in books</u>: No note required as it will not create any further liability of the company; actual or contingent.

b. <u>Guarantee furnished for contingent liability:</u>
   It is better to disclose the contingent liability in books rather than the guarantee, because.
   i. Companies Act requires disclosure of contingent liability.
   ii. The security/guarantee value may be less than the estimated contingent liability which will distort the picture.

c. <u>Guarantee furnished as security for performance.</u>
   i. Guarantee to any public authority who require it against any financial loss being committed due to non-performance.
      Since no liability, contingent or actual, arisen nor does giving guarantee constitute contingent liability, no disclosure required.
   ii. Guarantee given for statutory dues:
      The mere submission of guarantee doesn't constitute any default to be made by the company. Hence no actual/ contingent liability, no disclosure required, unless on or before Audit Report, any even happens which shows company's liability.

d. <u>Guarantee given for 3rd party (For which no liability existed before furnishing it):</u>
   The issue of guarantee creates a contingent liability on the part of company. But it shall be restricted only to the value outstanding at each Balance Sheet date.

e. <u>Other form of guarantee:</u>
   Disclosure only if creates contingent liability.

2. Counter Guarantees:

The principles are same as in guarantee case above.

<u>An issue:</u>

Company provided tangible security to the principle guarantor (PG) i.e. Financial Institution (such fact should be disclosed). Now this PG gives guarantee on behalf of the borrower to other Financial Institution on basis of security provided to by the borrower. Now issue is whether borrower show loan from other Financial Institution, secured or unsecured.

Secured because the security is encumbered at least. Unsecured becaseu no security is provided to lender.

ICAI says though its unsecured, borrower in a way did provide security to PG for the loan taken from lender. Hence secured loan.

3. **Guarantee given for 3rd Party:**

   It should be disclosed as it is contingent. Moreover if it is for person concerned with management, (Director, MD), additional disclosure need to be made.

4. **Disclosure in books of company receiving guarantee:**

   No disclosure unless furnished any tangible security in which case show it as 'secured loan" [as in (2)].

[B] Guidance note on Accounting of depreciation in limited company.

1. After this guidance note, company has to follow depreciation rates provided in the companies Act and not in Income Tax Act.
2. Different method of depreciation (WDV/SLM) may be followed for different classes/types of assets.
3. Method of accounting to be changed retrospectively.
4. Pro-rata depreciation: Asset used for part of year will be given proportionate depreciation.
5. Depreciation on low cost Asset: In case of Big companies, assets of upto Rs. 5000/- can be written off in same year. But not in case of small companies.
6. On Revaluation, depreciation shall be charged on revaluation amount.

[C] Guidance note on treatment of Reserve created on Revaluation.

1. Any revaluation reserve created out of upward revision of asset;
   a. Can't be used for distributing dividend.
   b. Not be used for setting off accumulated losses and depreciation.

   As it in an unrealized gain.
2. (i) Depreciation provided on revalued figure.

   (ii) Company can, alternatively, credit the depreciation on revalued amount form the revaluation reserve.

   An appropriate disclosure need to be given.
3. Additional depreciation can be given against revenue reserve but it shouldn't be done as an upward revision means increase in replacement cost.
4. Availability for issue of Bonus shares.

   ICAI opined that, no company can use the revaluation reserve for the purpose of capital and for bonus issue. If any company do so, the C.A. should qualify his audit report.

[D] Guidance note on accounting treatment of Excise Duty

1. Excise duty is a manufacturing cost and hence should be considered an element of cost and inventory valuation.
2. Where liability is incurred but collection is deferred, the provision for the same has to be made in the books.
   If no provision is made, it should be quantified and shown in notes to accounts.
3. If above guidance not followed, the C.A. should qualify the report.

[E] Guidance note on accounting for CDT. *(Corporate Dividend Tax)*.

CDT –Features:

- It is chargeable on declaration, distribution or payment of dividend, whichever is earlier.
- It is payable even if no income tax is payable.
- It is credited to central government in 14 days.

ICAI's Guidance:

(a) CDT liability is recognized in the year of which dividend concerned.
(b) It should be disclosed in profit and loss account 'below the line' item.
(c) 'Provision for CDT' should be disclosed separately under 'provisions'.

[F] Guidance note on accounting of credit availability of MAT.

Q-1 Is MAT credit a differed Tax asset?

Ans. DTA is created due to change in timing difference between the income in books and tax due to the expenses which are considered in books and not in tax. Since DTA is because of expenses and not due to income itself, as MAT is on Income which is after deduction of some special amount and not those which are given in Income tax normal provisions, it is not DTA.

Q.2 Is it an 'Asset'?

Ans. Since it will provide future entitlement to saving in tax, it is surely an asset. It should be shown under the head 'Loans and advances' as 'MAT credit entitlement'. But if company believe that its tax will not be more than the MAT for some periods, its amount should be written down.

In the year of high tax, it shall be debited to 'Provision for Tax' account.

[G] Circular 2/89

Depreciation rates provided in the Companies Act are minimum and rates lower than that shall not be allowed. Also any rate higher than that shall be allowed only if bonafide technical evaluation is done and also it is disclosed.