# ACCOUNTING STANDARDS

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# Accounting Standards Rules (2006)

# Notified on 07.12.2006Two types of Companies

#### - SMC

## - Non- SMC

# Accounting Standards Rules (2006)

Some relaxation to SMC
All the AS & ASI notified *verbatim*ASI-11, 12, 27 & 29 not notified

Exchange difference
with have to be adjusted
in P&L in case of asset
linked exchange
difference



# **Main Highlights** The notified accounting standards for the most part, are a verbatim reproduction of the Accounting Standards as issued by the ICAI

 The definition of SMCs is much simpler than the definition of SMEs given by ICAI (which involved classifying enterprises as level-I Enterprises, Level-II Enterprises, Level-II Enterprises).

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.

Enterprises -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.

# SMC The definition of SMCs is like level-II & level-III companies as classified by ICAI

## **Exemptions to SMCs**

SMCs need not to comply with AS-3, "Cash flow statement" & AS-17, "Segment Reporting"

## **Relaxations to SMCs**

Some relaxation in AS-15

Need not disclose diluted EPS as AS-20 "Earning per Share"

 Disclosure requirement of AS-29

## **Relaxations to SMCs**

 Disclosure requirement of AS-19

Value-in –use based on a reasonable estimate of future cash flows (AS-28).



#### From SMC to Non-SMC

## From Non-SMC to SMC

# **Disclosure by SMC**

 Disclosure about compliance of all ASs to the extent applicable

 Disclosure regarding availing the relaxations

# **Disclosure by SMC**

 A partial exemptions or relaxations and disclosures shall not be permitted

## **Effective from**

## All accounting periods commencing on or after 07.12.2006

# Thank





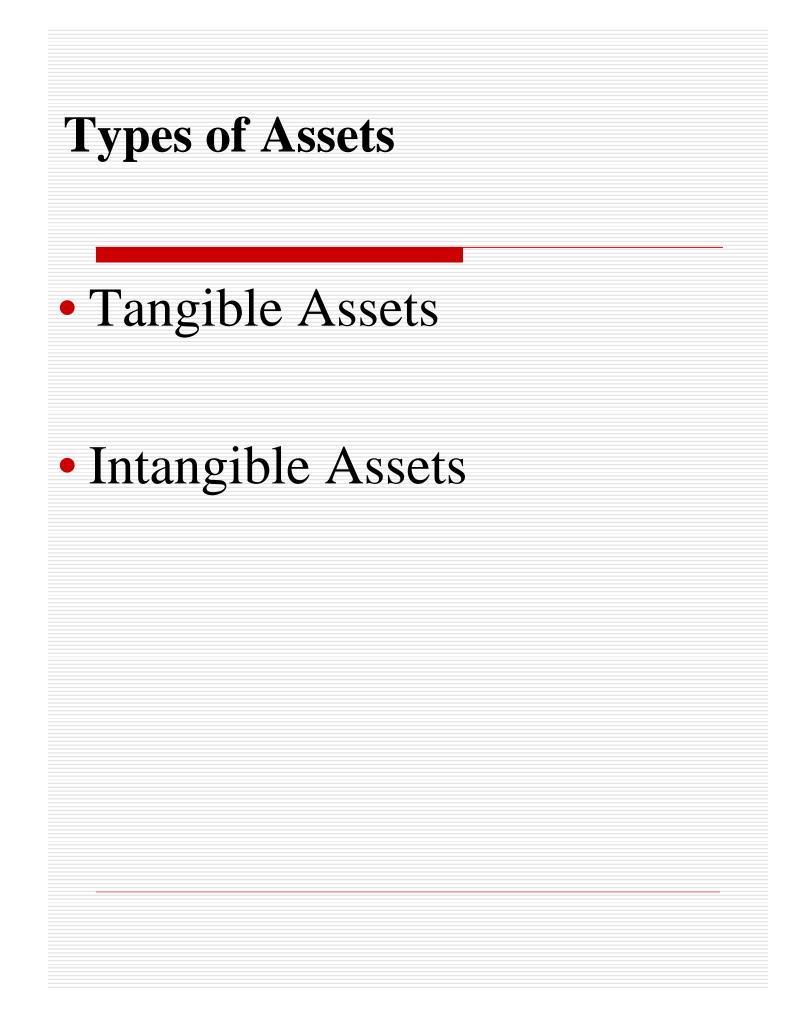
# INTANGIBLE ASSETS

#### What is an asset

#### An asset :-

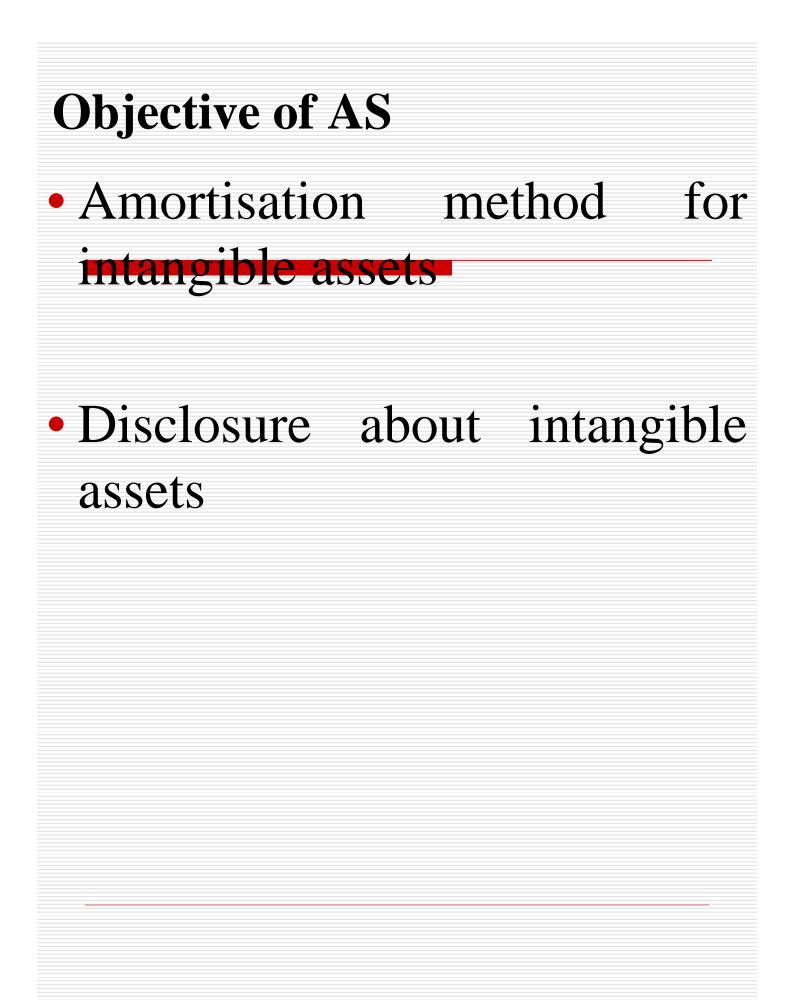
• Controlled by an enterprise as a result of past events and,

 From which future economic benefits are expected to flow to the enterprise



# Objective of AS Prescribing accounting treatment for intangible assets Prescribing criteria for recognition of assets in books of accounts

• How to measure the amount at which the intangible assets should be recognised



Applicability
AS is not applicable to:-
<ul> <li>Financial assets like cash</li> </ul>
• Intangible assets covered by
AS-14 'Accounting for
Amalgamation', AS-21
'Consolidated Financial
Statements', deferred tax
covered by AS-22
'Accounting for tax on
income' & AS-19 'Leases'

• The expenditure incurred on the exploration for, or development & extraction of il, gas & mineral deposits & rights. However, this standard applies to STRAT UP costs in extractive industries.

 Intangible assets arising in insurance enterprises from contracts with policyholders

# Share issue expenses, discount allowed on the issue of shares

# • Expenditure in respect of termination benefits (VRS)

# Intangible assets – this AS is applicable to

#### Goodwill

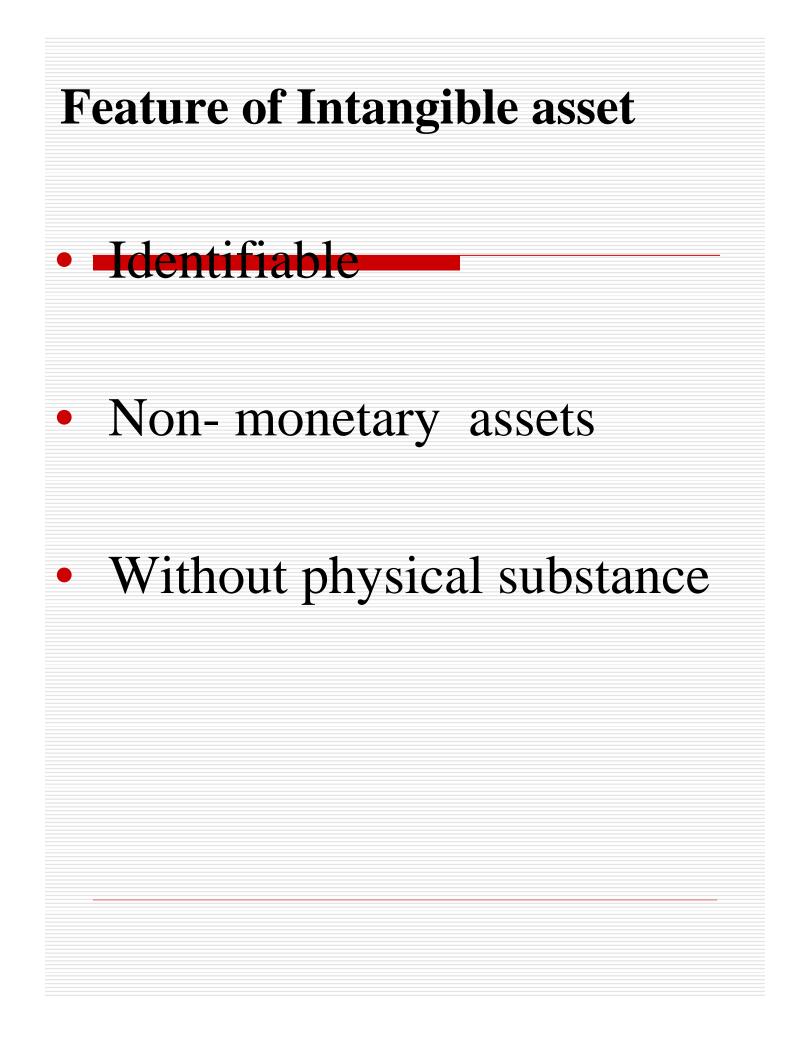
- Adverting expenses
- Training
- Startup costs
- Research & development activities
- Rights under licensing agreements

## Intangible assets – this AS is applicable to • Patents & copyright, trademark • Computer software • Other intangible assets which the definition meet of intangible assets as per AS-26

#### What is Intangible asset

An identifiable non-monetary asset without physical substance held for use in the production or supplying of goods or services for rentals to others or for administrative

purpose



# RecognitioncriteriaIntangible asset

# • Must have the characteristics of an asset

for

#### • Future economic benefits

#### • Reliably measured

# InitialmeasurementIntangible asset

# Intangible asset initially should be shown at cost

of

#### What is cost of Intangible asset

- Separate acquisition
- Exchange of assets
- By issue of shares or securities
- Acquisition of intangible assets in amalgamation

#### Internally generated goodwill



#### **Research Phase**

#### Research is the activity that is aimed at inventing or creating a new product, method or system

#### **Development Phase**

#### Development is the activity that converts the results of the research into a marketable product.

## AccountingtreatmentofResearch Cost

## Research cost be expensed and when incurred

#### Accounting treatment of Development expenses

To be expensed as incurred unless they meet asset recognition criteria

#### Accounting treatment Development expenses

• Technical feasibility of the product

of

- Availability of product for use or sale
- Identification of cost incurred
- Probability of external market
- The realistic expectation that there will be sufficient future revenue to cover cost

## Determination of cost internally generated intangible

Expenditure on materials & services used or consumed

 Salaries, wages & other employment related cost of personnel engaged in developing the intangible assets

## Determination of cost internally generated intangible

- Any expenditure directly attributable to the generation
- Overheads that are necessary for the generation of the intangibles

#### **Cost not to be included**

• Selling administrative other general overheads

## Inefficiencies & initial operating losses

X

• Expenditure on staff training

## Expenditure incurred but not intangible asset

Expenditure on start-up activities (start-up costs) unless this expenditure is included in the cost of an item of fixed assets under AS-10 Start up costs may consist of preliminary expenses incurred.

## Expenditure incurred but not intangible asset

- Expenditure on training activities
- Expenditure on adverting & promotional activities
- Expenditure on relocating or re-organizing part or all

## Subsequent Expenditure on intangibles

- Subsequent expenses increase the future economic benefits of intangibles
- Subsequent expenses can be attributed to asset & measured reliably

#### **Carrying amount of intangibles**

Intangibles shall be carried at its cost less any accumulated amortisation and any accumulated impairment

losses.

#### **Amortisation Method**

If the pattern of benefit & cost an be determined reliably, then the enterprises should amortise the intangible as per the pattern. However, if no pattern of benefit consumed can be determined reliably, then Straight-line method should be followed.

# Review of Amortisation Method Expected useful life – has significantly changed The pattern of future economic benefit has significantly changed

#### **Impairment losses**

#### **Retirement & Disposal**

#### Should be de-recognised /eliminated from balance sheet if -

- An intangible assets is disposed or,
- No future economic benefits are expected

#### Disclosure

- Useful life or amortisation rate
- Amortisation method
- Gross carrying amount, accumulated & impairment loss
- Reconciliation of carrying amount at the beginning and at the end of the period

#### **Further Disclosure**

- If amortisation period is more than 10 years, the reason why the useful life is estimated for more than 10 years
- Carrying amount of intangibles whose life is restricted, pledged on security
- Research & development expenses recognised as expenses during the period.

#### **Transitional Provision**

## Applicability of AS to computer software & web site cost

#### Internally Generally Software

#### Acquired Software

#### • Website Cost

## Significant difference among IFRS/IAS-38 & US GAAP

• There is no difference in charging the research cost to profit & loss statement, however in treatment of development expenditure US GAAP differs from AS-26 & IFRS/IAS-38. As per US GAAP development expenses also are written off subject to few exceptions

## Significant difference among IFRS/IAS-38 & US GAAP

 Revaluation of intangibles is not permitted in AS-26 & US GAAP whereas revaluation is permitted under IFRS/IAS-38 as allowed alternative treatment

## Significant difference among IFRS/IAS-38 & US GAAP

• AS-26 & IFRS/IAS-38 provides that subsequent expenditure cannot be capitalized unless the test of benefit proves cost incremental advantage relative to cost incurred, this aspect is not dealt with in US GAAP

### Thank

