

# Accounting Standards – Challenge in India

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# **CHANGING PROFILE OF PROFESSION IN CONTEXT OF MEMBER FIRMS**

**PERSPECTIVE PLANNING COMMITTEE**

## Research Results

- ▲ About 71 % firms were proprietorship
- ▲ **Stat audit** was main service line in 30% and Tax in 27% (Accounting 12%)
- ▲ In non metro 1% and in metro 7% **IFRS ready** (around 43% in the process)
- ▲ Most of firms (37%) shown **revenue growth** between 10 % to 25% from last year
- ▲ 51% of respondent who were sole proprietorships found it difficult to **quote fee** to client

## Research Results

- ▲ 60% of those who were partners and 65% of proprietors felt – “small size” hindrance to **professional development**
- ▲ Conflict of interest and lack of resources were main reason for discouraged networking, mergers
- ▲ More than 80% felt that **networking** will help the profession
- ▲ 44% felt that merger will help them by 10-25%
- ▲ 88% believed that LLP will help the professionals
- ▲ 74% felt **separate Accounting Standards** will be better for SMEs

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- Case Studies
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## CASE I

Whether unrealized loss on  
outstanding interest rates swaps  
would be allowable as business  
deduction

# CBDT internal guidelines

(Instructions no. 03/10 dt. 23 March 2010)

- ▲ In case derivative contract is not settled , position held in the financial instruments are marked to market
- ▲ As regards MTM losses, if the same is debited to P&L by the tax payer, CBDT has taken a view that such notional losses would be contingent in nature and hence can not be set off against income

# JP Morgan Chase Bank v. ADIT

(2010-TII-185-ITAT-DEL-INTL)

## Facts

- ▲ Debited to P&L amount as loss incurred on revaluation of interest rate swap transactions
- ▲ It marked to market the entire outstanding trading swap by comparing present value of floating interest cash flows on fixed rates
- ▲ Difference recorded in P&L account
- ▲ ITO disallowed the claim for deduction

## Assessee arguments

- ▲ Profit on revaluation of interest rate swaps arrived at in the same manner was taxed in earlier years and the method of accounting system followed was in terms of the guidelines on interest rates swap issued by RBI

- ▲ CIT (A) relied on the decision in the case of **United commercial Bank v CIT (1999) 240 ITR 355 (SC)** and held that premium is a cost of the swap transaction to the Assessee. Therefore the loss for the period up to the year end was allowed by CIT (A)
- ▲ Revenue filed an appeal against the CIT (A)'s order

## Issue

Whether unrealized loss on outstanding interest rate swaps at the year end would be allowed as business deduction

## Tribunal Ruling..

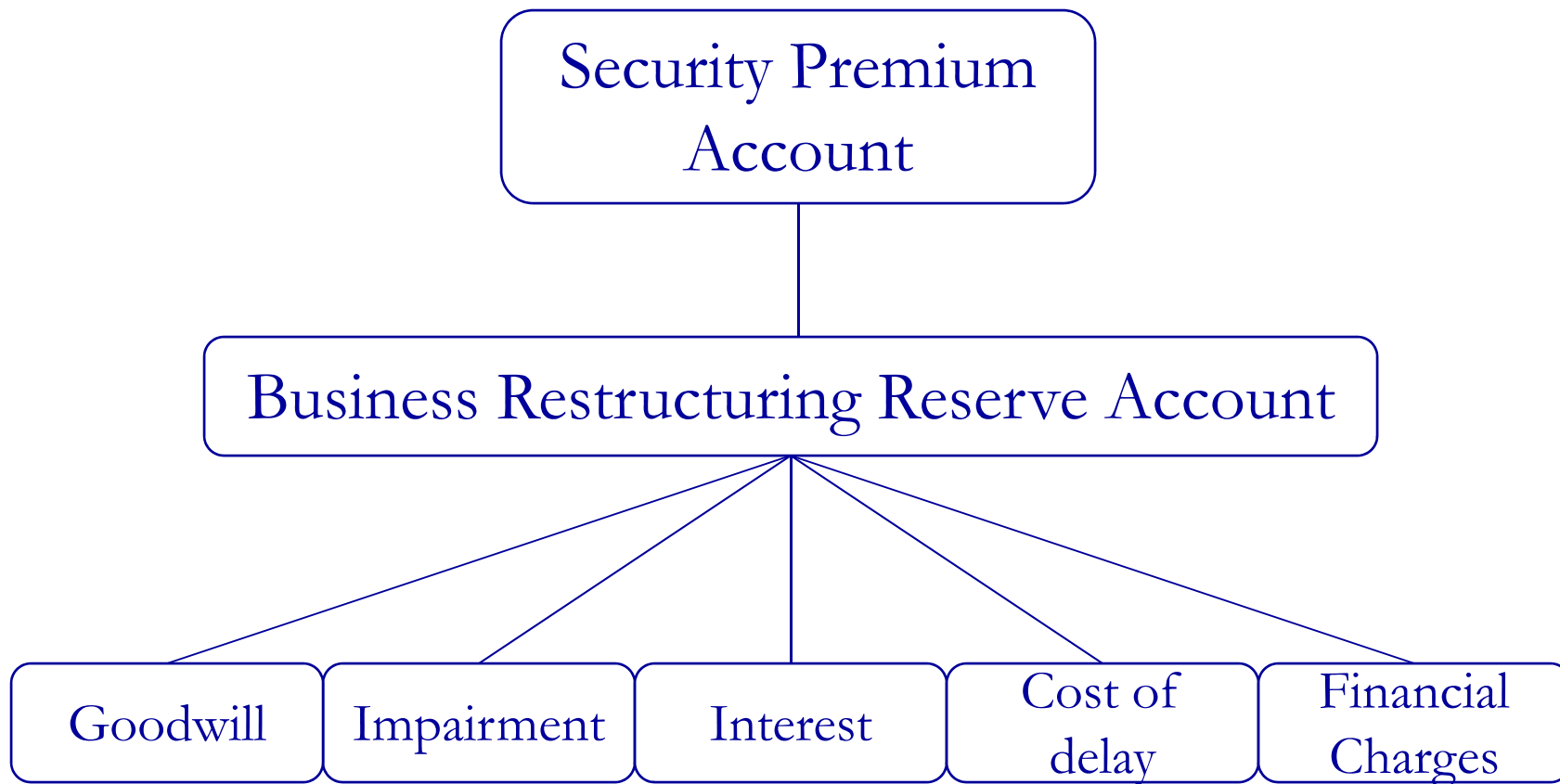
- ▲ The Assessee was following **consistent** method of accounting for interest rate swaps in terms of guidelines of RBI
- ▲ As per rule of consistency the method adopted by the Assessee had to be accepted and expenses would be allowed

## CASE II

Deviation from Accounting Standard not a ground  
for rejection of a scheme of Arrangement

Hindalco Industries Ltd. (Petition No. 293 of 2009)  
Dated 22 June, 2009

- Mumbai High Court



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## **Section 211 (3A) of the Companies Act 1956**

“Every profit and loss account and balance sheet of the company shall comply with the accounting standards.”

## **Section 211 (3B) of the Companies Act 1956**

“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 balance sheet, the following, namely :-

- (a) the deviation from the accounting standards;
- (b) the reasons for such deviation; and
- (c) the financial effect, if any, arising due to such deviation.”

- (a) Announcement on Disclosure (ICAI – July 2004)
- (b) Parrys Confectionery Ltd (2004) 122 comp CAS 900 (Mad)
- (c) Hyderabad Industries Limited (2004) 55 SCL 1 (AP)
- (d) Zee Telefilms Ltd (2004) 124 comp CAS 102 (Bom)

**SEBI** – Any scheme of arrangement to have certificate from auditor ...

“Accounting treatment contained in the scheme is in compliance with all the Accounting Standards specified by the Central Government.”

*(circular no. CIR / CFD / DIL / 1 / 2010 dated 5 April 2010)*

## CASE III

What if departure from standard is  
allowed by the regulator

## AS – 15

- ▲ Feb 9, 2011 - RBI issued circular ([DBOD.BP.BC.80/21.04.018/2010-11](#)) on reopening of Pension Option to employees of Public Sector Banks and Enhancements in Gratuity limits.
- ▲ In terms of this circular the bank may amortize this expense over a period of 5 years

This is departure from requirements of AS 15

# AS – 15

## ▲ ICAI Announcement

- ▶ Since the accounting treatment for such expenditure is prescribed under prudential regulatory framework of the Regulator, the auditors need not qualify their audit report on this account
- ▶ As per Standard of Audit (SA) 706 – the matter should be brought out by way of “Emphasis of Matter Paragraph” in the audit report

*“Without qualifying our opinion....”*

## CASE IV

Whether two or more views are possible in Accounting Standards

## AS – 15

- ▲ Airlines X allows its employees to purchase air tickets at concessional price
- ▲ Scheme allows an employee to purchase maximum 10 tickets in a year
- ▲ This will be subject to availability of seats in the relevant flight and with prior reservation

Evaluate whether it needs to fair value the tickets provided to the employees and recognize the difference as employee cost under AS 15

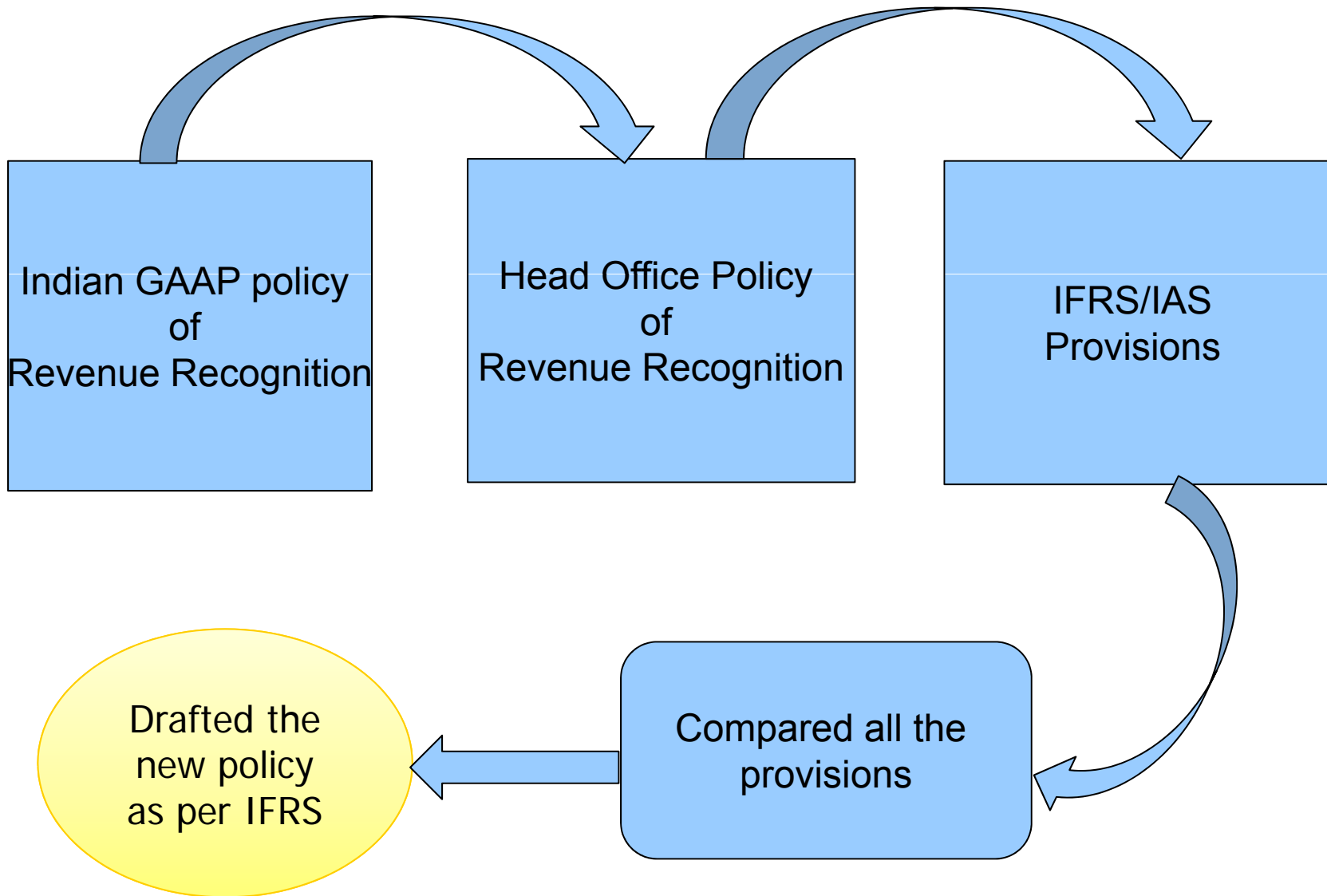
## View

- ▲ Clause 4 of AS 15 – Employee benefit also includes non monetary benefits such as medical care housing, car and free or subsidized goods
- ▲ So provision of air tickets at concessional price is covered under AS 15

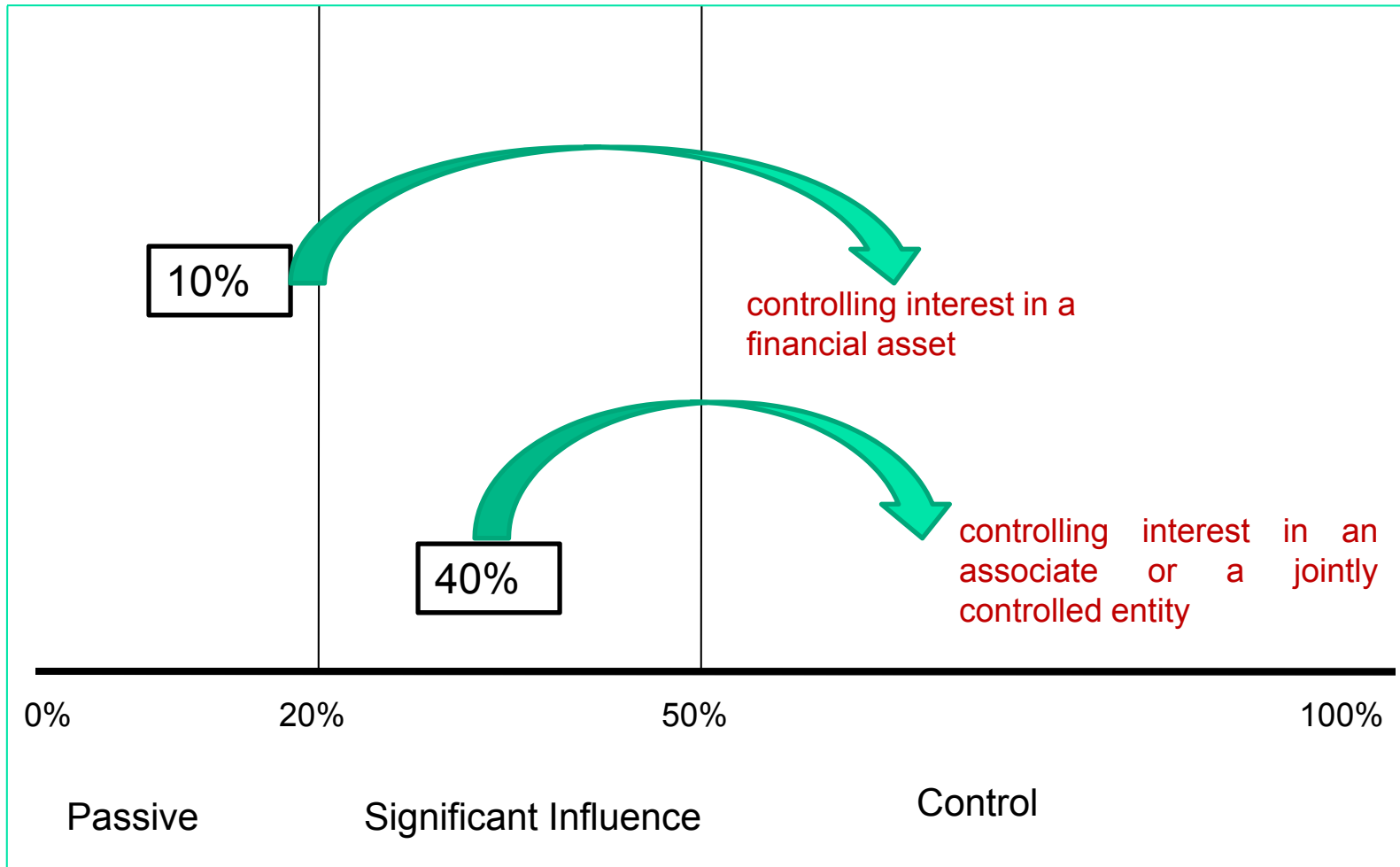
AS 15 generally talks about measurement of benefits as “The Cost” of the benefits – hence the measurement are based on difference between cost and amount charged.

Since no specific guidance on measurement of such benefits, an alternative view also seems possible. The management may measure the cost of benefits by reference to Fair Value of the goods.

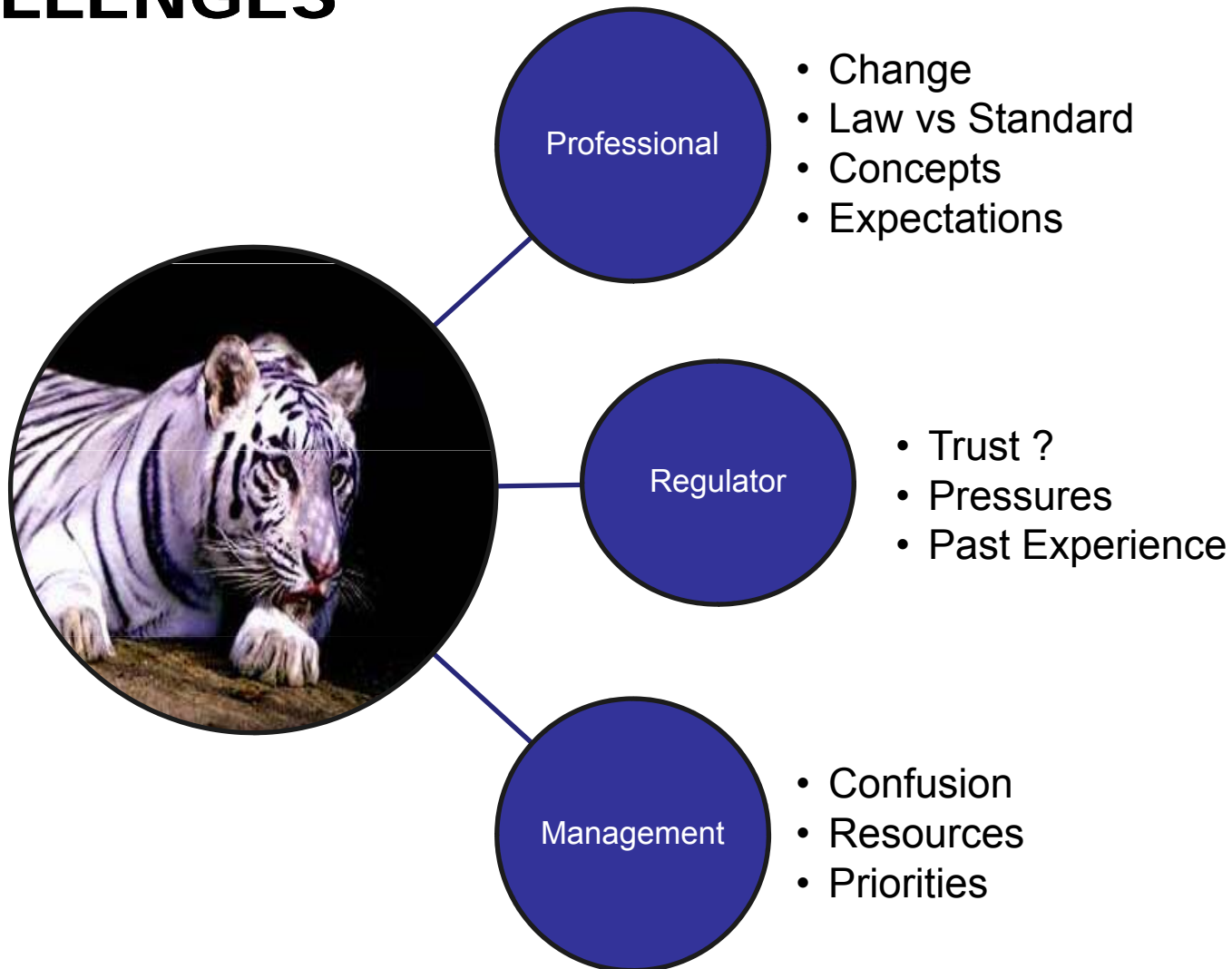
# Revenue



# Consolidation



# CHALLENGES



## Law vs Standards



## Position Paper (IFRS) – Identification of tax issues

- Two sub groups
- Possible options in hand
  - In Principle Approach –
    - Common tax base without effecting specific section wise change in Income Tax Act
  - Prescriptive Approach –
    - Specific changes in Income Tax Act
  - Parallel Books of Accounts

Global Position – Dependent / Quasi Dependent / Independent

**Thank You**

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