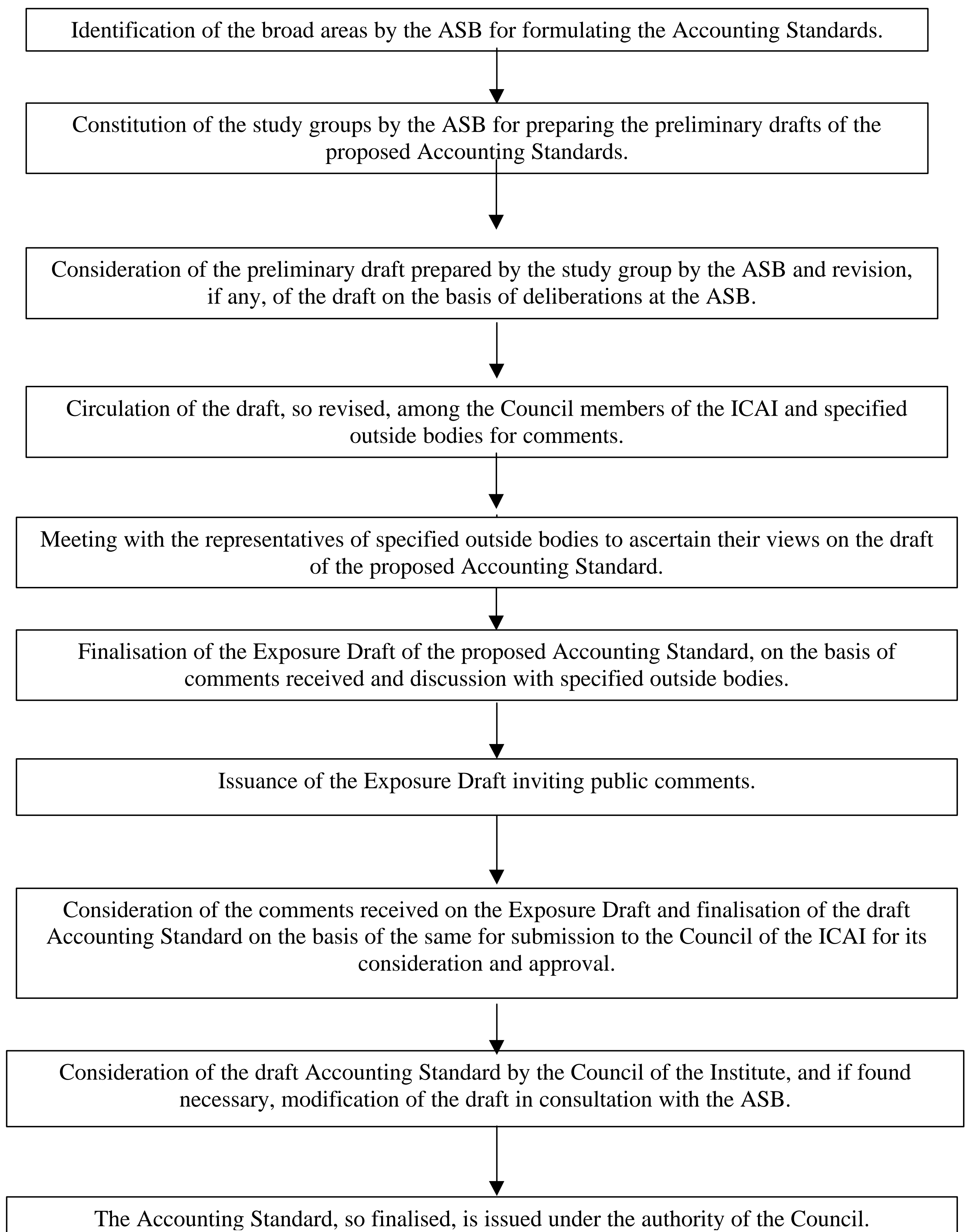
Annexure I

THE ADVISORY GROUP ON INTERNATIONAL ACCOUNTING AND AUDITING

Name	Designation	Role
Mr Y. H. Malegam	Member, Central Board of Directors of Reserve Bank of India, and Chartered Accountant	Chairman
Mr. N. P. Sarda	Chartered Accountant	Member
Mr. Mohindar M. Khanna	Chartered Accountant, Chairman Accounting Standards Board, Institute of Chartered Accountants of India.	Member
Mr. T. V. Mohandas Pai,	Chartered Accountant, Senior Vice President, Infosys Technologies Limited	Member
Dr. R. Kannan	Adviser, Department of Economic Analysis and Policy, Reserve Bank of India	Convenor
Mr. Dhritidyuti Bose	Assistant Adviser, Department of Economic Analysis and Policy, Reserve Bank of India	Co-Convenor

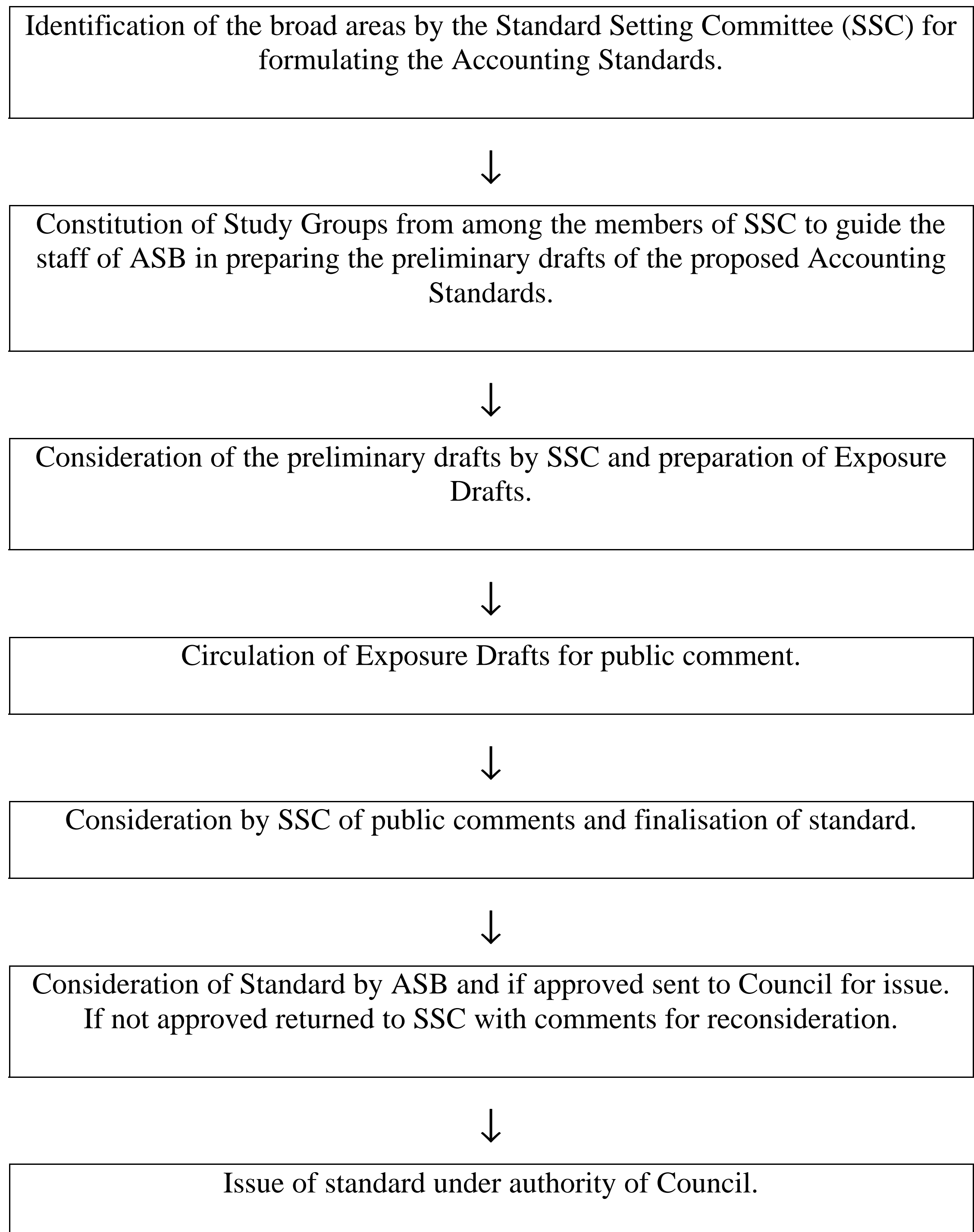
Annexure II

STANDARD SETTING PROCEDURE OF THE ACCOUNTING STANDARDS BOARD (ASB)



Annexure IIA

PROPOSED STANDARD SETTING PROCEDURE OF THE ACCOUNTING STANDARDS BOARD



Annexure III

MAJOR DIFFERENCES BETWEEN THE INDIAN ACCOUNTING STANDARDS AND INTERNATIONAL ACCOUNTING STANDARDS:

1. Accounting Standard (AS) 1, Disclosure of Accounting Policies International Accounting Standard (IAS) 1, Presentation of Financial Statements

(i) IAS 1 (revised 1997), Presentation of Financial Statements, superseded IAS 1, Disclosure of Accounting Policies, IAS 5, Information to be disclosed in Financial Statements and IAS 13, Presentation of Current Assets and Current Liabilities.

AS 1, which is based on former IAS 1, deals primarily with disclosure of significant accounting policies followed in preparing and presenting financial statements.

IAS 1, besides disclosure of accounting policies, also deals with other aspects relating to presentation of financial statements, e.g., structure and contents of financial statements including minimum requirements for each primary statement, distinction between current and non-current assets and liabilities etc.

IAS 1 also requires presentation of a separate statement, namely, changes in equity statement.

(ii) AS 1 requires that if fundamental accounting assumption relating to going concern is not followed, the fact should be disclosed.

IAS 1 besides disclosure of this fact also requires the basis on which financial statements are prepared and the reason why the enterprise is not considered to be a going concern.

(iii) AS 1 requires that if fundamental accounting assumption relating to accrual is not followed the fact should be disclosed whereas IAS requires that an enterprise should prepare its financial statements under the accrual basis of accounting.

It appears that there is no option under the IAS to prepare financial statements on basis other than accrual.

The practice of preparation of accounts on a consistent basis in India could not be ignored; and even for tax purposes, accounts drawn up on cash method are acceptable, as there is generally no statutory compulsion for non-corporate entities to prepare their accounts on accrual method.

(iv) AS 1 requires that if fundamental accounting assumption relating to consistency is not followed the fact should be disclosed; whereas IAS 1 requires that consistency of presentation has to be followed except in certain specified cases, namely, where a change in presentation is required by an International Accounting

Standard or an interpretation of the Standing Interpretations Committee or if a change will result in a more appropriate presentation of events or transactions or there is a significant change in the nature of the operations of the enterprise.

(v) IAS 1, in addition to the specific accounting policies, requires the disclosure of measurement basis (or bases) used, for example, historical cost, current cost, realisable value, fair value etc. AS 1, however, does not specifically require such a disclosure.

2. *Accounting Standard (AS) 2 (Revised), Valuation of Inventories*
International Accounting Standard (IAS) 2, Inventories

(i) Revised AS 2 does not permit the use of LIFO formula whereas IAS 2 permits the use of LIFO formula as an "allowed alternative treatment" provided certain disclosures laid down in IAS 2 are made.

(ii) IAS 2 provides that wherever the specific identification of costs is not appropriate, FIFO or weighted average cost formulas should be used for determination of the cost of inventories. Revised AS 2 also provides that the cost of inventories should be determined by using the FIFO or weighted average cost formula wherever the specific identification of costs is not appropriate. However, the revised AS 2 further requires that the formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition, which is not a requirement in IAS 2.

(iii) IAS 2 specifically deals with costs of inventories of an enterprise providing services. Revised AS 2, on the other hand, excludes from its scope the work-in-progress of such entities.

3. *Accounting Standard (AS) 3, Cash Flow Statements*
International Accounting Standard (IAS) 7, Cash Flow Statements

(i) AS 3, in case of enterprises other than financial enterprises, requires that cash flows arising from interest paid should be classified as cash flows from financing activities, whereas according to IAS 7, in case of such enterprises, interest paid may be classified either as operating cash flows or as financing cash flows.

(ii) AS 3 requires that cash flows arising from interest and dividend received should be classified as cash flows from investing activities in case of enterprises other than financial enterprises.

As per IAS 7, interest and dividend received may be classified either as operating cash flows or as investing cash flows in case of such enterprises.

(iii) AS 3 provides that dividends paid should be classified as cash flows from financing activities in case of all enterprises.

IAS 7 provides that dividends paid may be classified either as operating cash flows or as financing cash flows.

The requirements of AS 3 given in paragraphs (i) to (iii) above are specifically laid down in the standard paragraph itself, whereas in IAS 7, corresponding standard paragraph is not specific. The above treatments have been indicated in the explanation paragraphs. Thus, AS 3 clearly provides no alternative.

4.* Accounting Standard (AS) 4, Contingencies and Events Occurring after the Balance Sheet Date** ***International Accounting Standard (IAS) 10, Events after the Balance Sheet Date and International Accounting Standard (IAS) 37, Provisions, Contingent Liabilities and Contingent Assets

Indian Accounting Standard 4 is based on IAS 10 (pre-revised). IAS 10 has since been revised and covers accounting treatment relating to events after the balance sheet date only. The portion relating to contingencies has now been covered by IAS 37. The major differences given hereinafter are, therefore, between AS 4 and revised IAS 10 so far as events after the balance sheet date are concerned and between AS 4 and IAS 37 so far as contingencies are concerned. In this context, it may be mentioned that Indian accounting standard corresponding to IAS 37 is under preparation.

Major differences between AS 4 and IAS 37 so far as contingencies are concerned:

(i) IAS 37 defines ‘contingent assets’ and ‘contingent liabilities’ separately whereas in AS 4 definition of the term ‘contingency’ is given.

(ii) AS 4 requires contingent loss to be provided for if conditions specified in the standard are met; failing which, a disclosure of contingent loss has to be made. As regards contingent gains, it requires that they should not be recognised in the profit and loss account.

The approach followed in IAS 37 is different as specific requirements for provisions, contingent liabilities and contingent assets, their measurement including risks and uncertainties and reimbursement etc. have been laid down separately.

Major differences between AS 4 and IAS 10 relating to events occurring after the balance sheet date

(i) AS 4 requires that dividends stated to be in respect of the period covered by the financial statements, which are proposed or declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted.

IAS 10 on the other hand, requires that if dividends to holders of equity instruments are proposed or declared after the balance sheet date, an enterprise should not recognise those dividends as a liability.

(ii) AS 4 requires that disclosure should be made in the report of the approving authority (e.g. report of the board of directors) of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

IAS 10 requires that where events occurring after the balance sheet date do not affect the condition of assets or liabilities at the balance sheet date, but are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions, they should be disclosed in the financial statements.

Thus, while AS 4 requires disclosure in respect of material changes and commitments after the balance sheet date in the report of the approving authority, IAS 10 requires their disclosure in the financial statements.

5. *Accounting Standard (AS) 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies International Accounting Standard (IAS) 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies*

(i) While AS 5 uses the term ‘prior period items’ as it was in the pre-revised IAS 8, the revised IAS 8 uses the term ‘fundamental errors’. Broadly, the coverage of two terms is similar.

(ii) IAS 8 requires that the amount of the correction of a fundamental error that relates to prior periods should be reported by adjusting the opening balance of retained earnings. It further requires that comparative information should be restated,

unless it is impracticable to do so. AS 5 does not require this treatment to be made.

AS 5 requires that the nature and amount of prior period items should be separately disclosed in the statement of profit and loss of the current period, which is also permitted as allowed alternative treatment under IAS 8. However, as per allowed alternative treatment under IAS 8, additional pro forma information prepared in accordance with benchmark treatment is also required to be presented unless it is impracticable to do so.

(iii) IAS 8 provides, as a benchmark treatment, that a change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable (in the latter case the change should be applied prospectively). IAS 8 further requires that any resulting adjustment should be reported as an adjustment to the opening balance of retained earnings. Comparative information should be restated unless it is impracticable to do so. As an alternative, however, IAS 8 permits the inclusion of the resulting adjustment in the determination of the net profit or loss for the current period. However, under the alternative treatment, additional pro forma comparative information, prepared in accordance with benchmark treatment should be presented unless it is impracticable to do so.

AS 5 does not specifically provide whether a change in an accounting policy should be retrospective or prospective. As per AS 5, the disclosure of the impact of, and the adjustments resulting from, the change in accounting policy is required to be made where ascertainable.

(iv) IAS 8 specifically requires that reasons for the change in an accounting policy should be given whereas AS 5 does not contain such a requirement.

6. Accounting Standard (AS) 6, Depreciation Accounting International Accounting Standard (IAS) 4, Depreciation Accounting and International Standard (IAS) 16, Property, Plant and Equipment

IAS 4 does not deal with depreciation of property, plant and equipment whereas AS 6 applies to these assets. Depreciation on property, plant and equipment has been dealt with in IAS 16. Therefore, differences given hereinafter are between IAS 16 and AS 6 also wherever applicable.

(i) Periodic review of useful lives of depreciable assets is obligatory under IAS 4 as well as under IAS 16, whereas, under AS 6 it is not obligatory as AS 6 simply provides that such a review may be made.

(ii) Under IAS 4 a change in depreciation method can be made if the circumstances justify a change; whereas, in AS 6 change in depreciation method can be made only in circumstances which are laid down in AS 5 in relation to change in an accounting policy.

(iii) Under AS 6 change in depreciation method is considered as a change in accounting policy whereas in IAS 16 it is considered as a change in accounting estimate.

(iv) Under IAS 4, reasons for change in depreciation method should be stated. AS 6 does not contain such a requirement.

(v) IAS 16, in standard portion, requires that the depreciation method used should reflect the pattern in which the economic benefits are consumed by the enterprise. AS 6, however, does not specifically require this in the standard portion and it provides in the explanation portion factors to be considered in the selection of appropriate method of depreciation.

(vi) AS 6 requires retrospective recomputation of depreciation in case of change in accounting method, adjustment of which is required to be made in the current profit and loss account. Under IAS 16, it should be accounted for as change in accounting estimate and treated accordingly.

(vii) Under IAS 16 periodic review of depreciation method is required whereas it is not required under AS 6 since in AS 6 change in depreciation method can be made only in certain circumstances.

7. Accounting Standard (AS) 7, Accounting for Construction Contracts International Accounting Standard (IAS) 11, Construction Contracts

Indian accounting standard 7 is based on pre-revised IAS 11. It may be noted that AS 7 is under revision. The following are the major differences between existing AS 7 and current IAS 11.

(i) AS 7 provides that construction contracts involve construction of an asset or a combination of assets which together constitute a single project, e.g. bridges, dams, ships, buildings and complex pieces of equipment. IAS 11 lays down detailed requirements regarding situations where the different segments of a contract should be accounted for as separate contracts as also those where a group of contracts should be treated as a single construction contract.

(iii) AS 7 provides that in accounting for construction contracts, either the percentage of completion method or the completed contract method may be used. On the other hand, IAS 11 does not permit a choice and requires that where the outcome of a construction contract can be estimated reliably, contract revenue and contract

costs associated with the construction contract should be recognised on the basis of percentage of completion method.

IAS 11 provides that when the outcome of a construction contract cannot be estimated reliably: (a) revenue should be recognised only to the extent of contract costs incurred that it is probable will be recoverable; and (b) contract costs should be recognised as an expense in the period in which they are incurred. AS 7 does not have such a requirement, because in such cases, presumably, completed contract method should be applied.

(iii) AS 7 specifically provides (in the standard paragraph itself) that profit in the case of fixed price contracts normally should not be recognised unless the work on a contact has progressed to a reasonable extent. It also provides (in the standard paragraph itself) that while recognising the profit under percentage of completion method an appropriate allowance for future foreseeable factors should be made on either a specific or a percentage basis. IAS 11 does not specifically require this.

8. Accounting Standard (AS) 8, Accounting for Research and Development International Accounting Standard (IAS) 38, Intangible Assets

AS 8 is based on former IAS 9, which has been superseded by IAS 38 on Intangible Assets. It may be noted that Indian accounting standard on intangible assets is under preparation. The major differences discussed below are between AS 8 and IAS 38.

(i) For the purpose of accounting treatment, IAS 38 makes a distinction between costs incurred during the research phase and costs incurred during the development phase. AS 8 does not make such distinction.

(ii) As regards research phase, IAS 38 requires that all the costs should be expensed. However, as per AS 8, research costs along with development cost may be deferred if certain conditions specified in the standard are fulfilled.

(iii) As per IAS 38, the costs incurred in the development phase should be recognised as an intangible asset if certain conditions specified in the standard are satisfied. Under AS 8, development costs can be deferred and recognised under the head ‘miscellaneous expenditure’ if certain conditions specified in the standard are fulfilled. IAS 38 does not give an option to expense the development costs where the specific conditions given in IAS 38 are fulfilled whereas in AS 8 the option of expensing such costs is available even where the conditions specified for deferment in the standard are fulfilled.

9. Accounting Standard (AS) 9, Revenue Recognition International Accounting Standard (IAS) 18, Revenue

(i) While IAS 18 also deals with the measurement of revenue, AS 9 deals basically with the timing of the recognition of revenue.

(ii) AS 9 provides that revenue from sale of goods should be recognised when all the following conditions have been fulfilled.

(a) The seller of the goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership.

(b) No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

(c) It is not unreasonable to expect ultimate collection of the consideration.

Apart from conditions similar to those at (a) – (c), IAS 18 contains a further condition, viz., that the costs incurred or to be incurred in respect of the transaction can be measured reliably. Also, unlike AS 9, IAS 18 does not refer to transfer of property in goods; it refers only to transfer of significant risks and rewards of ownership.

(ii) As per AS 9, in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished.

IAS 18 requires that when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the balance sheet date. IAS 18 lists the conditions to be satisfied to determine whether the outcome of a transaction can be estimated reliably. IAS 18 further provides that when the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognised only to the extent of the expenses recognised that are recoverable.

AS 9 does not contain any such stipulation.

(iii) AS 9 requires that the revenue from interest should be recognised on a time proportion basis taking into account the amount outstanding and the rate applicable provided no significant uncertainty as to measurability or collectability exists. IAS 18, while requiring the recognition of interest on a time proportion basis, specifically states that in doing so, effective yield on the asset should be taken into account.

Thus, under IAS 18 interest revenue is adjusted with the amortisation of any discount, premium or other difference between the initial carrying amount of a debt security and its amount at maturity.

10. ***Accounting Standard (AS) 10, Accounting for Fixed Assets International Accounting Standard (IAS) 16, Property, Plant and Equipment***

(i) AS 10 covers both tangible and intangible fixed assets, such as goodwill, patents, etc., whereas IAS 16 covers only property, plant and equipment; intangible fixed assets are covered by IAS 38.

(ii) AS 10 does not specifically deal with the timing of recognition of fixed assets. IAS 16 requires that "an item of property, plant and equipment should be recognised as an asset when (a) it is probable that future economic benefits associated with the asset will flow to the enterprise, and (b) the cost of the asset to the enterprise can be measured reliably."

(iii) With regard to self-constructed assets, IAS 16 specifically states that the cost of abnormal amounts of wasted material, labour, or other resources incurred in the production of such asset is not included in the cost of the assets. However, AS 10 while dealing with self-constructed fixed assets does not mention the above.

(iv) AS 10 provides that when a fixed asset is revalued in financial statements, an entire class of assets should be revalued, or the selection of assets for revaluation should be made on a systematic basis. However, IAS 16 does not give the option of selection of assets for revaluation.

(v) AS 10 specifically deals with the fixed assets owned by the enterprise jointly with others. IAS 16 does not specifically deal with this aspect.

(vi) AS 10 specifically deals with situations where several fixed assets are purchased for a consolidated price. IAS 16 does not specifically deal with this aspect.

(viii) Various paragraphs of IAS 16 lay down or refer to requirements in respect of impairment of assets as contained in IAS 36 - Impairment of Assets. AS 10 does not lay down such requirements. In this regard, it may be noted that an Indian accounting standard on Impairment of Assets is under preparation.

11. ***Accounting Standard (AS) 11, Accounting for the Effects of Changes in foreign Exchange Rates International Accounting Standard (IAS) 21, The Effects of Changes in Foreign Exchange Rates***

(i) AS 11 deals with forward exchange contracts. IAS 21 does not deal with forward exchange contracts.

(ii) AS 11 provides that the need for foreign currency translation arises in respect of the financial statements of foreign branches of the parent enterprise. IAS 21

requires such translation in respect of all foreign operations which cover not only foreign branches but also foreign subsidiaries, associates and joint ventures. For accounting purposes, IAS 21 classifies the aforesaid operations of an enterprise into (a) those integral to the operations of the enterprise, and (b) those that are not integral to the operations of the enterprise, termed as 'foreign entities'. AS 11 does not make such a distinction.

(iii) IAS 21 provides separate procedures for translation of financial statements of the above-mentioned two classes of foreign operations. The requirements of AS 11 for translation of financial statements of foreign branches generally follow the procedures set out in IAS 21 in respect of integral operations.

(iv) AS 11 in respect of reporting the effects of changes in exchange rate subsequent to initial recognition requires that the carrying amount of fixed assets should be adjusted by the exchange difference arising on repayment/translation of liabilities incurred for acquisition of the relevant fixed assets. In this regard, IAS 21 does not make a distinction between non-monetary items related to the fixed assets and non-monetary items other than those related to fixed assets.

In IAS 21, treatment given under AS 11 is provided as an 'allowed alternative treatment' in case the exchange differences result from a severe devaluation or depreciation of a currency against which there is no potential means of hedging and the devaluation or depreciation affects liabilities which cannot be settled and which arise directly on the recent acquisition of an asset invoiced in a foreign currency. The aforesaid alternative treatment is applicable in respect of all assets and not only the fixed assets.

(v) In case of translation of fixed assets of branches the differences between AS 11 and IAS 21 in respect of integral operations are the same as stated in para (iv) above.

12. Accounting Standard (AS) 12, Accounting for Government Grants International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance

(i) IAS 20, in addition to government grants which are dealt with by AS 12, also deals with disclosure of other types of government assistance.

(ii) AS 12 specifically deals with accounting treatment of government grants which are related to specific fixed assets. IAS 20 does not specifically deal with such grants.

(iii) AS 12 requires that in case the grant is in respect of non-depreciable assets, the amount of the grant should be shown as capital reserve which is a part of shareholders' interest. It further requires that if a grant related to a non-

depreciable asset requires the fulfillment of certain obligations, the grant should be credited to income over the same period over which the cost of meeting such obligations is charged to income. AS 12 gives an alternative to treat such grants as a deduction from the cost of such asset. IAS 20 specifically prohibits recognition of grants in the shareholders' interest directly, i.e., only the other two treatments can be followed.

(iv) AS 12 recognises that some government grants have the characteristics similar to those of promoters' contribution. It requires that such grants should be credited to capital reserve and treated as a part of shareholders' funds. IAS 20 does not recognise government grants of the nature of promoters' contribution. Thus, the principles laid down in IAS 20 for accounting for government grants would also apply equally to grants of the aforesaid nature.

(v) AS 12 requires that government grants in the form of non-monetary assets, given at a concessional rate, should be accounted for on the basis of their acquisition cost. In case a non-monetary asset is given free of cost, it should be recorded at a nominal value. IAS 20 recognises that in the case of government grants in the form of non-monetary assets, it is usual to account for both the grant and the asset at the fair value of the asset, though an alternative course that is sometimes followed is to record them at a nominal amount.

13. Accounting Standard (AS) 13, Accounting for Investments
International Accounting Standard (IAS) 25, Accounting for Investments[1]

(i) IAS 25 excludes from its scope investments in subsidiaries, associates, and joint ventures because other specific IASs deal with such investments. AS 13, on the other hand. is applicable to such investments. IAS 25 also excludes goodwill, patents, trademarks and similar assets. AS 13 also does not cover these, although there is no specific exclusion.

(ii) As per AS 13, separate disclosure of current investments and long-term investments is obligatory. However, under IAS 25 it is obligatory only if the enterprise distinguishes between current and long-term assets in its financial statements.

(iii) AS 13 requires further classification of current and long-term investments into certain categories. IAS 25 does not specifically provide for such further classification.

(iv) AS 13 provides that a current investment is an investment that by its nature is readily realisable and is intended to be held for not more than one year from the date on which such investment is made. In IAS 25, the words 'from the date on which such investment is made' are not there in the definition of 'current investment'.

(v) AS 13 specifically deals with determination of acquisition cost of right shares. IAS 25 does not specifically deal with this aspect.

(vi) AS 13 requires that investments classified as current investments should be carried in the financial statements at the lower of cost and fair value. However, IAS 25 allows the valuation of current investments at either (a) market value, or (b) lower of cost and market value.

(vii) As per AS 13, fair value should be determined either on an individual investment basis or by category of investments, but not on an overall (or global) basis. However, IAS 25 permits global basis also in the case the investments are valued at the lower of cost and market value.

(viii) AS 13 provides that investments classified as long term investments should be carried in the financial statements at cost. IAS 25 allows the valuation of long-term investments on three alternative bases, viz., (a) cost, or (b) revalued amounts, or (c) lower of cost and market value determined on a portfolio basis (this basis can, however, be followed only in respect of marketable equity securities and is not permitted in respect of other long-term investments).

(ix) AS 13 provides that investment properties (properties held as investment) should be accounted for as long term investments. IAS 25 also allows the alternative of treating investment properties as property, plant and equipment.

14. Accounting Standard (AS) 14, Accounting for Amalgamations International Accounting Standard (IAS) 22, Business Combinations

(i) AS 14 deals with accounting for amalgamations. IAS 22 covers situations other than amalgamations also, e.g., reverse acquisitions. It may be mentioned that since IAS 22 covers situations other than amalgamations, it is not strictly comparable with AS 14.

(ii) AS 14 is applicable to the company form of organisations.

IAS 22 is applicable to business combinations of all types of enterprises including companies.

(iii) IAS 22, for establishing whether a combination is in the nature of uniting of interests requires identification of mutual sharing of risks and benefits. For

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[1] From the date of coming into effect of IAS 39, Financial Instruments: Recognition and Measurement, and IAS 40, Investment Property, i.e., 1st January, 2001, IAS 25 will be withdrawn.

identification of mutual sharing of risks and benefits, IAS 22 lays down certain conditions. These conditions are such that uniting of interests can take place only in exceptional circumstances, for example, one of the conditions is that the fair value of one enterprise is not significantly different from that of the other enterprise. AS 14, for this kind of combination (termed as amalgamation in the nature of merger) does not lay down this condition, which is the major difference in this regard.

(iv) AS 14 and IAS 22 require that amalgamations in the nature of purchase should be accounted for under the purchase method. However, there are differences in the application of the method. As per AS 14, according to this method, in preparing the transferee company's financial statements, the assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or, alternatively, the consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation. On the other hand, the Benchmark Treatment under IAS 22 is to measure identifiable assets and liabilities at their fair values. In case the combination is such that the acquirer does not acquire the entire interest in the net identifiable assets, identifiable assets and liabilities should be recognised at fair values to the extent of the acquirer's interest and at the minority's proportion of the pre-acquisition carrying amounts of such assets and liabilities. Allowed Alternative in this regard is to recognise the identifiable assets and liabilities at fair values including in respect of the minority interest.

(v) AS 14 provides that amortisation period of goodwill arising on amalgamation should not normally exceed 5 years. IAS 22 provides that amortisation period of goodwill should normally not exceed 20 years.

(vi) IAS 22 requires that the amortisation period and the amortisation method should be reviewed at least at each financial year-end. AS 14 does not specifically contain such a requirement.

(vii) AS 14 requires that if the amount of the consideration is lower than the value of the net assets of the transferor company, the difference should be treated as capital reserve by the transferee company. It may be noted that capital reserve, by its very nature, is not recognised as an income at any point of time. IAS 22 terms the above difference as "negative goodwill" and requires that it should be recognised as income either immediately or over a period of time depending on certain conditions laid down in the standard.

15. Accounting Standard (AS) 15, Accounting for Retirement

Benefits in the Financial Statements of Employers
International Accounting Standard (IAS) 19, Employee Benefits

IAS 19 (revised 1998), Employee Benefits, has replaced IAS 19, Retirement Benefit Costs. IAS 19 (revised) deals with all forms of employee benefits, whereas AS 15, which is based on the former IAS 19, deals only with retirement benefits. The following are the major differences between AS 15 and IAS 19.

(i) IAS 19 provides that where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they should be discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality corporate bonds and in case there is no deep market in such bonds, on government bonds. AS 15 does not contain such requirement.

(ii) AS 15 provides that in respect of gratuity and other defined benefits schemes, the accruing liability should generally be determined on the basis of actuarial valuation. It further provides that actuarial valuation should normally be conducted at least once in every three years. IAS 19, also specifies the use of the Projected Unit Credit Method (an actuarial valuation method) to determine the present value of an enterprise's defined benefit obligations. It also requires that an enterprise should determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

(iii) IAS 19 deals in detail with multi-employment plans, state plans and insured plans in respect of post employment benefits. AS 15 does not specifically deal with this aspect.

(iv) IAS 19 specifically deals with accounting for the constructive obligations, i.e., obligations which are not legal obligations under the formal term of a defined benefit plan but arise because of enterprise's informal practices. AS 14 does not specifically deal with this aspect.

(v) IAS 19 contains detailed requirements in respect of actuarial method, actuarial assumptions, actuarial gains and losses, recognition and measurement of plan assets etc. AS 15 does not specifically deal with these aspects.

16. Accounting Standard (AS) 16, Borrowing Costs

International Accounting Standard (IAS) 23, Borrowing Costs

AS 16 requires that borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (qualifying asset) should be capitalised as part of the cost of that asset. It further provides that other borrowing costs should be recognised as an expense in the period in which they are incurred.

Under IAS 23, the Benchmark Treatment is that borrowing costs should be recognised as an expense in the period in which they are incurred. However, as an Allowed Alternative Treatment, capitalisation of those borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets is also permitted. Thus, while AS 16 requires capitalisation of borrowing costs relating to qualifying assets, IAS 23 allows an enterprise to either capitalise such costs or expense them.

17. Accounting Standard (AS) 17, Segment Reporting
International Accounting Standard (IAS) 14, Segment Reporting

(i) IAS 14 is required to be applied by enterprises whose equity or debt securities are publicly traded and by enterprises that are in the process of issuing equity or debt securities in public securities markets. Besides these enterprises, AS 17 is also applicable to all other commercial, industrial and business reporting enterprises whose annual turnover is more than Rs. 50 crores.

(iv) IAS 17 states that an enterprise may choose not to report its vertically integrated activities as separate segments. In such a case, the selling segment should be combined into the buying segment in identifying whether the two together constitute a single reportable business segment. This requirement is to be read in the context of another requirement of the IAS whereby disclosures about a business segment are to be made only if a majority of its revenue is earned from sales to external customers. AS 17 does not contain the above requirements. Thus, under AS 17, in the case of a vertically integrated enterprise, if a segment meets the quantitative norms for being a reportable segment, the relevant disclosures have to be made even if a majority of its revenue is from sales to other segments.

(v) AS 17 requires that a segment identified as a reportable segment in the immediately preceding period, should continue to be a reportable segment for the current period irrespective of its size. IAS 14 while requiring the above also

provides that such segment would be reportable if the management of the enterprise judges the segment to be of continuing significance.

18. Accounting Standard (AS) 18, Related Party Disclosures
International Accounting Standard (IAS) 24, Related Party Disclosures

(i) IAS 24, *inter alia*, provides that no disclosure of transactions is required:

(a) in parent financial statements when they are made available or published with the consolidated financial statements; and

(b) in financial statements of a wholly-owned subsidiary if its parent is incorporated in the same country and provides consolidated financial statements in that country.

AS 18, on the other hand, does not provide any exemption in respect of the above. Accordingly, the financial statements of holding and subsidiary companies would be self-contained.

(ii) As compared to IAS 24, while establishing related party relationships, AS 18 also recognises joint ventures as one of the related party relationship.

(iii) AS 18 does not require the disclosures in circumstances where making disclosures as per the requirements of the standard would conflict with the duties of confidentiality of the reporting enterprise as specifically required in terms of a statute or by any regulator or similar competent authority. IAS 24 is silent in this regard.

(iv) In AS 18, the definition of the term 'related party' provides that parties are considered to be related if **at any time during the reporting period** one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. The definition of IAS 24 does not include the expression 'at any time during the reporting period'.

(v) IAS 24 defines control as ownership, directly, or indirectly through subsidiaries, of more than one half of the voting power of an enterprise, or a substantial interest in voting power and the power to direct, by statute or agreement, the financial and operating policies of the management of the enterprise.

Besides the above, AS 18 recognises one more situation in the definition of control, i.e., control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise.

(vi) AS 18 clearly states the relatives of an individual, viz., spouse, son, daughter, father, mother, brother and sister. However, IAS 24 does not state clearly as to who are the 'close members of the family'.

(vii) IAS 24 provides that related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties. What disclosures should be made in this regard is not clear. AS 18 clearly provides, to avoid any ambiguity, that the name of the related party and nature of the related party relationship should be disclosed in such cases.

(viii) IAS 24 requires that if there have been transactions between related parties, the reporting enterprise should disclose the nature of the related party relationships as well as the types of transactions and the elements of the transactions necessary for an understanding of the financial statements. AS 18 provides exactly what disclosures are required to be made. AS 18 also clearly provides that these disclosures should be made only in respect of transactions entered into during the existence of related party relationship.

It may be mentioned that, besides the above specific differences, in some cases the disclosure requirements of IASs are more detailed as compared to Indian ASs.