

# Guidance Note on Recognition of Revenue by Real Estate Developers

*The following is the text of the Guidance Note on Recognition of Revenue by Real Estate Developers, issued by the Council of the Institute of Chartered Accountants of India.*

## INTRODUCTION

1. The term 'real estate' refers to land as well as building. This Guidance Note recommends principles for recognition of revenue arising from real estate sales by the enterprises engaged in such activities (commonly referred to as 'real estate developers', 'builders' or 'property developers').

## APPLICATION OF REVENUE RECOGNITION PRINCIPLES PRESCRIBED IN AS 9 TO REAL ESTATE SALES

2. For recognition of revenue in case of real estate sales, it is necessary that all the conditions specified in paragraphs 10 and 11 of Accounting Standard (AS) 9, *Revenue Recognition*, as reproduced below, are satisfied:
 

***"10. Revenue from sales or service transactions should be recognised when the requirements as to performance set out in paragraphs 11 and 12 are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unrea-***
3. The real estate sales take place in a variety of ways and may be subject to different terms and conditions as specified in the agreement for sale. Accordingly, the point of time at which all significant risks and rewards of ownership can be considered as transferred, is required to be determined on the basis of the terms and conditions of the agreement for sale. In case of real estate sales, the events, such as, transfer of legal title to the buyer or giving possession of real estate to the buyer under an agreement for sale, usually, provide an evidence to the effect

***sonable to expect ultimate collection, revenue recognition should be postponed.***

***11. In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:***

- (i) the seller of 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; and***
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods."***

that all significant risks and rewards of ownership have been transferred to the buyer. It may, however, be noted that in case of real estate sales, the seller usually enters into an agreement for sale with the buyer at initial stages of construction. This agreement for sale is also considered to have the effect of transferring all significant risks and rewards of ownership to the buyer provided the agreement is legally enforceable and subject to the satisfaction of all the following conditions which signify transferring of significant risks and rewards even though the legal title is not transferred or the possession of the real estate is not given to the buyer:

- (a) The significant risks related to the real estate have been transferred to the buyer; in case of real estate sales, price risk is generally considered to be one of the most significant risks.
  - (b) The buyer has a legal right to sell or transfer his interest in the property, without any condition or subject to only such conditions which do not materially affect his right to benefits in the property.
4. Once the seller has transferred all the significant risks and rewards of ownership to the buyer and other conditions for recognition of revenue specified in paragraphs 10 and 11 of AS 9 are satisfied, any further acts on the real estate performed by the seller are, in substance, performed on behalf of the buyer in the manner similar to a contractor. Accordingly, in case the seller is obliged to perform any substantial acts after the transfer of all significant risks and rewards of ownership, revenue is recognised by applying the percentage of completion method in the manner explained in AS 7,

*Construction Contracts.*

5. Paragraph 9.2 of AS 9 provides as follows: "9.2 Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc., revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collection, revenue is recognised at the time of sale or rendering of service even though payments are made by instalments."

Accordingly, in case it is unreasonable to expect ultimate collection, the revenue recognition is postponed to the extent of uncertainty involved.

## RECOMMENDATIONS

6. Revenue in case of real estate sales should be recognised when all the following conditions are satisfied:
- (i) The seller has transferred to the buyer all significant risks and rewards of ownership and the seller retains no effective control of the real estate to a degree usually associated with ownership;
  - (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the real estate sales; and
  - (iii) it is not unreasonable to expect ultimate collection.
7. The determination of point of time when all significant risks and rewards of ownership are transferred depends on the facts and circumstances of each case considering the terms and conditions

of the agreement. In case of real estate sales, all significant risks and rewards of ownership are normally considered to be transferred when legal title passes to the buyer (e.g., at the time of the registration, with the relevant authorities, of the real estate in the name of the buyer) or when the seller enters into an agreement for sale and gives possession of the real estate to the buyer under the agreement. All significant risks and rewards of ownership are also considered to be transferred, if the seller has entered into a legally enforceable agreement for sale with the buyer and all the following conditions are satisfied even though the legal title is not passed or the possession of the real estate is not given to the buyer:

- (a) The significant risks related to real estate have been transferred to the buyer. In case of real estate, price risk is generally considered to be one of the most significant risks.
  - (b) The buyer has a legal right to sell or transfer his interest in the property, without any condition or subject to only such conditions which do not materially affect his right to benefits in the property.
8. When the seller has transferred to the buyer all significant risks and rewards of ownership, it would be appropriate to recognise revenue at that stage subject to fulfillment of other conditions specified in paragraph 6 above, provided the seller has no further substantial acts to complete under the contract. However, in case the seller is obliged to perform any substantial acts after the transfer of all significant risks and rewards of ownership, revenue should be recognised on proportionate basis as the acts are performed, i.e., by applying the percentage of completion method in the manner explained in Accounting Standard (AS) 7, *Construction Contracts*. An example is a building or other facility on which construction has not been completed though all significant risks and rewards of ownership have been transferred pursuant to the fulfillment of conditions stated in paragraph 7 above. Another example is of a land which is yet to be developed though the seller has transferred all significant risks and rewards of ownership of the land to the buyer through an agreement for sale as per paragraph 7 above.
  9. Whether the seller retains no effective control of the real estate transferred to a degree usually associated with ownership also depends on the facts and circumstances of each case considering the terms and conditions of the agreement. The nature and extent of continuing involvement of the seller should be assessed to determine whether the seller retains effective control. In some cases, real estate may be sold with a degree of continuing involvement by the seller such that the risks and rewards of ownership are not transferred. Examples are sale and repurchase agreements which include put and call options, and agreements whereby the seller guarantees occupancy of the property for a specified period.
  10. In case of real estate sales, since normally the amount of consideration is specified in the agreement, no significant uncertainty exists regarding the amount of the consideration that will be derived from the sales.
  11. For determining whether it is not unreasonable to expect ultimate collection, a seller should consider the

evidence of the buyer's commitment to make the complete payment. Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time all significant risks and rewards of ownership are transferred to the buyer, revenue recognition is postponed to the extent of uncertainty involved. For example, when the aggregate of the payments received, including the buyer's initial down payment, or continuing payments by the buyer, provide

insufficient evidence of the buyer's commitment to make the complete payment, revenue is recognised only to the extent of realisation of the consideration provided other conditions for recognition of revenue are satisfied.

12. An enterprise should disclose the accounting policy regarding recognition of revenue arising from the real estate sales, including the timing of transfer of significant risks and rewards of real estate which is the subject matter of sale.

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## **Exposure Draft**

# **Preface to the Statements of Accounting Standards for Local Bodies**

*The following is the Exposure Draft of the Preface to the Statements of Accounting Standards for Local Bodies, issued by the Committee on Accounting Standards for Local Bodies for comments. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.*

*Comments should be submitted in writing to the Secretary, Committee on Accounting Standards for Local Bodies, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than July 15, 2006. Comments can also be sent by e-mail at [localbodies@icai.org](mailto:localbodies@icai.org) or [tdte@icai.org](mailto:tdte@icai.org).*

### **1. Introduction**

- 1.1 This Preface to the Statements of Accounting Standards for Local Bodies (ASLBs) sets out the objectives and operating procedures of the Committee on Accounting Standards for Local Bodies (CASLB) and explains the scope and authority of the Accounting Standards. The Preface should be used as a reference for interpreting invitations to comment, discussion documents, exposure drafts and standards formulated by the CASLB.
- 1.2 The 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Acts envisage a key role for the

Panchayati Raj Institutions (PRIs) and the Urban Local Bodies (ULBs) in respect of various functions such as education, health, rural housing and drinking water. The State Governments are required to devolve powers and responsibilities upon the PRIs and the ULBs with respect to preparation of plans for economic development and social justice, and for the implementation of development schemes as may be required to enable them to function as institutions of self-government. Due to such devolution of powers and responsibilities, the role of

the ULBs varies across various States. Under the Urban Reforms Incentive Fund (URIF) which was launched a few years back, 28 States/Union Territories agreed to adopt the double entry system of accounting. Further, through the National Urban Renewal Mission, the Government requires Local Self Governments to adopt modern, accrual-based double entry system of accounting. The Government had also proposed Second Generation Reforms under Urban Reforms Incentive Fund (URIF-II) to further encourage adoption of accrual-based double entry system of accounting amongst Local Self Governments.

1.3 The term 'Local Body' may be defined as a local self-government at the third tier of governance in an administrative and geographical vicinity, e.g., a municipal corporation, a municipality or a panchayat. In many cases, the Local Bodies delegate their functions such as building of schools, toll-free city roads, parks, running transport services, providing water supply etc., to some other bodies that may or may not be controlled by the Local Bodies. Such bodies may be constituted directly or indirectly by or on behalf of a Local Body to promote or carry out some specific objective(s) or function(s) of the Local Bodies. Such bodies may be constituted under a statute. The term 'Local Body' would also encompass such bodies.

1.4 Of late, many Local Bodies in the country are shifting to accrual basis of accounting, particularly, after the issuance of the National Municipal Accounts Manual by the Ministry of Urban Development, Government of India supported by the Comptroller & Auditor General of India, National Institute of Urban Affairs and Indo- USAID

FIRE-D Project and the inputs provided by the Institute of Chartered Accountants of India. The NMAM provides guidance to ULBs in preparation of their accounts on accrual basis. Another reason for ULBs adopting accrual basis is that these bodies are also approaching capital markets for raising funds. However, these bodies are following diverse accounting policies and practices in preparation of their financial statements. Hence, a need is felt for formulation of a single set of high quality financial reporting standards for Local Bodies which will set out recognition, measurement, presentation and disclosure requirements dealing with transactions and events in general purpose financial statements of Local Bodies. As a first step in this direction, Accounting Standards Board constituted a Sub-Committee for issuing accounting standards for government including urban local bodies in 1999, which issued a *Technical Guide on Accounting and Financial Reporting by Urban Local Bodies*. The Guide contains recommendations relating to application of accounting standards issued by the Institute of Chartered Accountants of India, to ULBs. Recognising the need to harmonise and improve accounting and financial reporting among Local Bodies, the Institute of Chartered Accountants of India (ICAI), constituted a full-fledged Committee on Accounting Standards for Local Bodies (CASLB) in March 2005.

1.5 The main function of the CASLB is, therefore, to formulate a single set of Accounting Standards applicable to Local Bodies.

1.6 The composition of the CASLB is fairly broad-based and ensures participation of all interest-groups in the standard-setting process. Apart from the members of the

Council of the ICAI, the following interest groups are represented on the CASLB:

- (i) Representative of the Ministry of Urban Development
- (ii) Representative of the Controller General of Accounts
- (iii) Representative of the National Institute of Urban Affairs
- (iv) Representative of the Ministry of Panchayati Raj
- (v) Four representatives of Directorates of Local Bodies from various States by rotation
- (vi) Two representatives of Academic Institutions
- (vii) Eminent professionals co-opted by the ICAI (they may be in practice or in industry, government, education, etc.)
- (viii) Representative(s) of any other body, as considered appropriate by the ICAI.

## 2. Objectives and Functions of the Committee on Accounting Standards for Local Bodies

2.1 The following are the objectives and functions of the CASLB:

- (i) To conceive of and suggest areas in which Accounting Standards for Local Bodies need to be developed.
- (ii) To formulate Accounting Standards for Local Bodies.
- (iii) To examine how far International Public Sector Accounting Standards (IPSASs) prepared by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) can be integrated into national Accounting Standards for Local Bodies envisaged in paragraph (ii) above and to integrate the same to the extent possible with a view to facilitate global harmonisation.

- (iv) To review, at regular intervals, the Accounting Standards for Local Bodies from the point of view of acceptance or changed conditions, and, if necessary, revise the same.
- (v) To provide, from time to time, interpretations and guidance on Accounting Standards for Local Bodies.
- (vi) To formulate comments on the drafts of Accounting Standards for governmental bodies issued by various authorities including International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC).
- (vii) To respond to issues arising from implementation of Accounting Standards for Local Bodies.
- (viii) To take adequate steps for propagation and dissemination of the requirements contained in the Accounting Standards for Local Bodies, including appropriately addressing the training issues, with a view to ensure effective implementation of the standards.
- (ix) To take steps in facilitating improvement in accounting methodology and systems of Local Bodies, keeping abreast of the state of development of accounting systems in Local Bodies and to act as a forum to receive feedback from Local Bodies regarding problems faced by them in the adoption of accrual accounting and in application of the Accounting Standards.
- (x) To create awareness amongst various stakeholders such as end users and citizens about the benefits of the accounting reform process in Government and Local Bodies.
- (xi) To carry out such other work relating to Accounting Standards and other

aspects of accounting and financial reporting by Local Bodies as may be entrusted to it by the Council.

- (xii) To perform such other functions as may be assigned by the Council such as, to provide support to Government(s) and regulators, e.g., the proposed Governmental Level Technical Committee to be constituted under the aegis of Ministry of Urban Development and C & AG, in their endeavours towards various other aspects of financial reporting including preparation of asset registers, performance measurement, budgeting, costing, internal control and audit.
- 2.2 The main function of the CASLB is to formulate Accounting Standards for Local Bodies so that such standards may be established by the ICAI in India. While formulating the Accounting Standards, the CASLB will take into consideration the applicable laws, customs, usages and the economic environment prevailing in India.
- 2.3 The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is expected, inter alia, to use its best endeavors to incorporate the requirements of International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board of IFAC into the national accounting requirements. Accordingly, while formulating the Accounting Standards, the CASLB will give due consideration to (IPSASs), and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India.
- 2.4 The Accounting Standards for Local Bodies are issued under the authority of the

Council of the ICAI. The CASLB has also been entrusted with the responsibility of propagating the Accounting Standards and of persuading the concerned authorities to adopt them in the preparation and presentation of financial statements. The CASLB will provide interpretations and guidance on issues arising from Accounting Standards. The CASLB will also review the Accounting Standards at periodical intervals and, if necessary, revise the same.

### 3. **General Purpose Financial Statements**

- 3.1 For discharging its functions, the CASLB will keep in view the purposes and limitations of financial statements and the attest function of the auditors. The CASLB will enumerate and describe the basic concept to which accounting principles should be oriented and state the accounting principles to which the practices and procedures should conform.
- 3.2 The CASLB will clarify the terms commonly used in financial statements and suggest improvements in the terminology wherever necessary. The CASLB will examine the various current alternative practices in vogue and endeavour to eliminate or reduce alternatives within the bounds of rationality.
- 3.3 The term 'General Purpose Financial Statements' includes balance sheet, income and expenditure account, a cash flow statement and other statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public. The State Governments may also require certain additional information by virtue of powers given to the legislatures of States in 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Acts. If such information is

required by a State Government, it would form part of the financial statements. References to financial statements in this Preface and in the standards issued from time to time will be construed to refer to general purpose financial statements. Accounting Standards for Local Bodies, therefore, are designed to apply to the general purpose financial statements and other financial reporting by Local Bodies.

3.4 Responsibility for the preparation of financial statements and for adequate disclosure is that of the management of the Local Bodies.

#### 4. **Scope of Accounting Standards for Local Bodies**

4.1 The CASLB is developing a set of standards which will primarily be based on the accrual basis of accounting. Efforts will be made to issue Accounting Standards for Local Bodies which are in conformity with the provisions of the applicable customs, usages and economic environment in India. Accounting Standards formulated by the CASLB do not override the statute/law that govern the issue of general purpose financial statements of a particular Local Body. Accounting Standards (ASs) already issued by Institute of Chartered Accountants of India apply to those enterprises as stated in paragraph 3.3 of the 'Preface to the Statements of Accounting Standards'. Although such Accounting Standards are not designed to apply to Local Bodies, such Bodies may follow these Standards since they lay down wholesome principles of accounting, until the Accounting Standards for Local Bodies (ASLB) are issued by this Committee. Thus, once an ASLB is issued, the Local Bodies should follow the

ASLB and not the corresponding Accounting Standard issued by the ICAI.

4.2 The Accounting Standards for Local Bodies are intended to apply only to items which are material. Any limitations with regard to the applicability of a specific Accounting Standard will be made clear by the ICAI from time to time.

4.3 The CASLB believes that the adoption of the Accounting Standards for Local Bodies, together with disclosure of compliance with them will lead to a significant improvement in the quality of general purpose financial reporting by Local Bodies. This, in turn, is likely to lead to better informed assessments of the resource allocation decisions, thereby increasing transparency and accountability.

4.4 In formulation of Accounting Standards for Local Bodies, the emphasis would be on laying down accounting principles and not detailed rules for application and implementation thereof.

4.5 The Standards formulated by the CASLB include paragraphs in bold italic type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this Preface.

4.6 The CASLB may consider any issue requiring interpretation on any Accounting Standard for Local Bodies. Interpretations will be issued under the authority of the Council. The authority of Interpretations is the same as that of the Accounting Standard to which it relates.

#### 5. **Moving from the Cash Basis to the Accrual Basis**

5.1 A Local Body in the process of moving

from cash basis of accounting to accrual basis of accounting may wish to include particular accrual-based disclosures during this process. The status (for example, audited or unaudited) and location of additional information (for example, in the notes to the financial statements or in a separate supplementary section of the financial statements) will depend on the characteristics of the information (for example, reliability and completeness).

- 5.2 The CASLB also attempts to facilitate compliance with accrual-based Accounting Standards through the use of transitional provisions in certain standards. Where transitional provisions exist, they may allow a Local Body additional time to meet the full requirements of a specific accrual-based Accounting Standard or provide relief from certain requirements when initially applying an Accounting Standard. A Local Body may at any time elect to adopt the accrual basis of accounting in accordance with Accounting Standards. At this point, the Local Body should apply all the accrual-based Accounting Standards and could choose to apply any transitional provisions in an individual accrual based Accounting Standard.
- 5.3 Having decided to adopt accrual accounting in accordance with Accounting Standards, the transitional provisions would govern the length of time available to make the transition. On the expiry of the transitional provisions, the Local Body should report in full in accordance with all accrual-based Accounting Standards.

## 6. Procedure for Issuing an Accounting Standard for Local Bodies

Broadly, the following procedure is adopt-

ed for formulating Accounting Standards for Local Bodies:

- 6.1 Determine the broad areas in which Accounting Standards need to be formulated and the priority in regard to the selection thereof.
- 6.2 For the preparation of Accounting Standards, the CASLB will be assisted by Study Groups constituted to consider specific subjects. In the formation of Study Groups, provision will be made for wide participation by various interest groups.
- 6.3 The draft of the proposed standard will normally include the following:
  - (a) Objective of the Standard,
  - (b) Scope of the Standard,
  - (c) Definitions of the terms used in the Standard,
  - (d) Recognition and measurement principles, wherever applicable,
  - (e) Presentation and disclosure requirements.
- 6.4 The CASLB will consider the preliminary draft prepared by the Study Group and if any revision of the draft is required on the basis of deliberations, the CASLB will make the same or refer the same to the Study Group.
- 6.5 The procedure for issuance of an Interpretation on any Accounting Standard for Local Bodies will be the same as that for issuance of an Accounting Standard since the authority of an Interpretation is the same as that of Accounting Standard for Local Bodies to which it relates.
- 6.6 The CASLB will circulate the draft of the Accounting Standard/Accounting Standards Interpretation for Local Bodies to the Council members of the ICAI and the following specified bodies for their comments:
  - (i) Comptroller and Auditor General of India (C&AG)

- (ii) Ministry of Urban Development
  - (iii) Controller General of Accounts
  - (iv) Ministry of Panchayati Raj
  - (v) National Institute of Urban Affairs
  - (vi) Directorates of Local Bodies of the State Governments
  - (vii) Major Local Bodies
  - (viii) National Institute of Financial Management
  - (ix) Securities and Exchange Board of India
  - (x) Proposed Technical Committee when constituted by the Ministry of Urban Development and the C & AG
  - (xi) The All India Council of Mayors
  - (xii) All India Institute of Local Self Government
  - (xiii) Donors of funds to Local Bodies such as US AID, World Bank, etc.
  - (xiv) The Institute of Cost and Works Accountants of India
  - (xv) The Institute of Company Secretaries of India
  - (xvi) Any other body considered relevant by the CASLB keeping in view the nature of the Accounting Standard.
- 6.7 The CASLB will hold a meeting with the representatives of the selected specified bodies to ascertain their views on the draft of the proposed Accounting Standard/Accounting Standards Interpretation for Local Bodies. On the basis of comments received and discussion with the representatives of specified bodies, the CASLB will finalise the Exposure Draft of the proposed Accounting Standard/Accounting Standards Interpretation for Local Bodies.
- 6.8 The Exposure Draft of the proposed Standard/Interpretation will be issued for comments by the members of the Institute and the public. The Exposure Draft will be sent to the specified bodies (as listed above), and other interest groups, as appropriate. The Exposure Draft will be sent to Governmental Level Technical Committee proposed to be constituted by the Ministry of Urban Development and C & AG for deliberations and dissemination among various stakeholders.
- 6.9 After taking into consideration the comments received, the draft of the proposed Accounting Standard/Accounting Standards Interpretation for Local Bodies will be finalised by the CASLB and submitted to the Council.
- 6.10 The Council of the ICAI will consider the final draft of the proposed Standard/Interpretation, and if found necessary, modify the same in consultation with the CASLB. The Accounting Standard/Accounting Standards Interpretation on the relevant subject will then be issued by the ICAI.
- 6.11 The ICAI will send the Accounting Standards to the Governmental Level Technical Committee proposed to be constituted by the Ministry of Urban Development and the C & AG for recommending the same for acceptance by the State Governments to achieve uniformity in preparation and presentation of financial statements by complying with the requirements of the Accounting Standards for Local Bodies.
- 6.12 For a substantive revision of an Accounting Standard/Accounting Standards Interpretation for Local Bodies, the procedure followed for formulation of a new Accounting Standard/Accounting Standards Interpretation for Local Bodies, as detailed above, will be followed.
- 6.13 Subsequent to issuance of an Accounting Standard/Accounting Standards Interpretation for Local Bodies, some aspect(s) may require revision which are not substantive in nature. For this purpose, the

ICAI may make limited revision to an Accounting Standard/Accounting Standards Interpretation for Local Bodies. The procedure followed for the limited revision will substantially be the same as that to be followed for formulation of an Accounting Standard/Accounting Standards Interpretation for Local Bodies, ensuring that sufficient opportunity is given to various interest groups and general public to react to the proposal for limited revision.

## 7. Compliance with the Accounting Standards

7.1 Ensuring compliance with the Accounting Standards for Local Bodies is the responsibility of the appropriate authority which

approves the financial statements of the Local Body for the purpose of issuance thereof. Having issued the Accounting Standard for Local Bodies, various State Governments may require Local Bodies to follow the Accounting Standards for Local Bodies issued by the Institute of Chartered Accountants of India. Thus, an Accounting Standard for Local Bodies becomes mandatory for Local Bodies in a State from the date specified in this regard by the State Government concerned.

7.2 Financial statements cannot be described as complying with the Accounting Standards for Local Bodies unless they comply with all the requirements of each applicable Standard. □

## ANNOUNCEMENT

Deferment of Applicability of Announcement on 'Accounting for exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction'

1. The Institute of Chartered Accountants of India (ICAI), in January 2006, issued an Announcement on '*Accounting for exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction*'. Pending the issuance of the proposed Accounting Standard on '*Financial Instruments: Recognition and Measurement*', which is under formulation, the said Announcement prescribes the accounting treatment which should be followed in respect of the exchange differences arising on the forward exchange contracts entered into to hedge the foreign currency risks of a firm commitment or a highly
2. probable forecast transaction.
2. Considering the issues being raised regarding the applicability date of the Announcement, the ICAI subsequently decided that this Announcement was applicable in respect of accounting period(s) commencing on or after April 1, 2006.
3. Certain representations have been received and views have been expressed on certain forums regarding the applicability of this Announcement. Considering these representations and views, the Council of the ICAI has decided to defer the applicability of this Announcement by one year. This Announcement would now be applicable in respect of accounting period(s) commencing on or after April 1, 2007.