

Non-Compliance with Reporting Obligations Observed by FRRB Relating to Accounting Standard 1: Disclosure of Accounting Policies

Financial Statement of an enterprise is a prime tool for stakeholders to know about the financial health of the enterprise. The users of the financial statements are highly reliant on the information published therein about the state of affairs of the enterprises which makes it imperative for the information presented be truthful, reliable and in adherence to the regulatory requirements. Financial Reporting Review Board (hereinafter referred as FRRB or Board) reviews the General Purpose Financial Statements (GPFS) of enterprises with the view to identify the non-compliances with Accounting and Auditing Standards, CARO, Companies Act, and other statutory requirements for preparation and presentation of the financial statements. The non-compliances observed by the Board are compiled from time to time and published in volumes of its publication "Study on Compliance with Financial Reporting Requirement" as well as in Journal with an objective to educate the preparers of financial statements, auditor and other members about the compliance with various financial reporting requirements thus paving the way for enhancing the quality of the financial statements as well as quality of services rendered by the members. This article deals with the non-compliances observed by the Board on requirements prescribed under Accounting Standard- 1.

1. There were instances where the enterprises had disclosed the accounting policies on recognition and measurement of items in the financial statement; however, the policies disclosed were not complete. A few examples of such incomplete policies are stated as below:
 - (a) Policy on impairment of assets stated 'impairment losses, if any, on fixed assets (including revalued assets) are recognized in accordance with the Accounting Standard 28 and charged to Profit & Loss Account'
 - (b) Policy on intangible assets merely stated that 'intangible assets are recognized in accordance with the Accounting Standard 26'
 - (c) Policy on deferred taxes stated that 'deferred tax assets / liabilities have been provided for in the books of accounts in accordance with AS 22'
 - (d) Policy on employee benefits for gratuity stated that 'in case of non-member of the gratuity fund, the gratuity is provided as per the approval of Central Government and as per the payment of Gratuity Act, 1972, wherever applicable.'

The Board, while reviewing such financial statements, observed that such policies only provide the means

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to understand the policy adopted by the companies rather than providing the accounting policies explicitly and unequivocally which is not in line with the requirements of Paragraph 11 of Accounting Standard – 1 as reproduced below:

"11. The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements."

It was viewed that at the time of making disclosure about significant accounting policies, care should be taken that it clearly speaks about the accounting principles used for recognition and measurement of relevant item and methods as to how such principles have been applied at the time of preparation and presentation of the financial statement. It may be noted that mere reference to the relevant accounting standard cannot be considered as a complete

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accounting policy. Accordingly, in the instances mentioned above, it was viewed by the Board that the adopted policies are not in line with the requirements of AS 1.

2. In some of the cases either no accounting policy was disclosed by the enterprise for significant items which were material to the financial statement as a whole, or the disclosures made were not complete. Some of the instances observed by the Board during the course of the review are listed below:
 - (a) An enterprise was primarily engaged in the business of setting-up / operating industrial infrastructure in addition to this the enterprise was also involved in leasing and providing services connected with computer software and data processing. It was noted that although policy for recognition of revenue from leasing activities (secondary business) has been disclosed but no policy has been disclosed for revenue from setting-up / operating industrial infrastructure (primary business).
 - (b) In certain financial statements significant amount of MAT credit entitlement has been recognized with corresponding recognition of the related asset, which has been shown under 'long-term loans and advances,' yet no policy for recognition of such MAT credit has been disclosed.
 - (c) From the annual report of certain enterprises, it was noted that no accounting policy has been disclosed, with regard to one or more of the items such as Fixed Assets, Inventories, Provisions and Contingent Liabilities, Impairment of Assets, Accounting for Taxes on Income, Revenue Recognition, Lease, Employee Benefits, Foreign Currency Transactions, Borrowing Costs, Intangible Assets, Interest, Commission and Royalty etc.

The Board viewed that the disclosure of significant accounting policies adopted for preparation and presentation of financial statement is imperative for the proper understanding of financial statement and, therefore, should be disclosed, by way of notes to the accounts as per the requirement of paragraph 24 of Accounting Standard 1 which states:

"24. All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed."

However, in line with the Accounting Standards, it was viewed that there cannot be provided a general list of the items in the financial statement that are considered significant and thus warrant the disclosure of accounting policies in all the circumstances. It was viewed that differing the circumstances in which an enterprise operates in situation of diverse and complex economic activity, enterprise may choose alternative accounting principles and methods of applying those principles based on the considerable judgement of the management. However, the disclosure of such accounting principles and methods of applying them, otherwise known as accounting policies, is necessary and should be made for all the significant items which are material to the preparation and presentation of the financial statement.

In the light of the above, it was viewed in the cases mentioned above the requirements of AS 1, regarding disclosure of significant accounting policies, have not been complied with.

3. In some of the cases, it was noted that certain accounting policies have been disclosed by the enterprises under the heading 'Significant Accounting Policies,' however, accounting policies pertaining to other items / transaction have been disclosed by way of notes at various places in the financial statement.


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It was viewed that all the significant accounting policies should be disclosed at one place since it would be helpful to the reader of the financial statements rather than scattering them over several notes in the financial statement. Accordingly, disclosure of adopted policies at different places in the financial statement was considered to be not in line with the requirements of Paragraph 25 of AS 1, which provides as follows:

"25. The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed at one place." ■