Limited Revisions to AS 14

The Council of the Institute of Chartered Accountants of India has decided to make the following limited revisions to Accounting Standard (AS) 14, Accounting for Amalgamations.

It has been decided to substitute paragraph 42 of AS 14 by the following paragraph (modifications made are shown as underlined):

“42. Where the scheme of amalgamation sanctioned under a statute prescribes the treatment to be given to the reserves of the transferor company after amalgamation, the same should be followed. Where the scheme of amalgamation sanctioned under a statute prescribes a different treatment to be given to the reserves of the transferor company after amalgamation as compared to the requirements of this Statement that would have been followed had no treatment been prescribed by the scheme, the following disclosures should be made in the first financial statements following the amalgamation:

(a) A description of the accounting treatment given to the reserves and the reasons for following the treatment different from that prescribed in this Statement.

(b) Deviations in the accounting treatment given to the reserves as prescribed by the scheme of amalgamation sanctioned under the statute as compared to the requirements of this Statement that would have been followed had no treatment been prescribed by the scheme.

(c) The financial effect, if any, arising due to such deviation.”

As a consequence of the change in the above paragraph, paragraph 23 of AS 14, which is the explanatory paragraph to paragraph 42, has been decided to be substituted by the following paragraph (modifications made are shown as underlined):

“23. The scheme of amalgamation sanctioned under the provisions of the Companies Act, 1956 or any other statute may prescribe the treatment to be given to the reserves of the transferor company after its amalgamation. Where the treatment is so prescribed, the same is followed. In some cases, the scheme of amalgamation sanctioned under a statute may prescribe a different treatment to be given to the reserves of the transferor company after amalgamation as compared to the requirements of this Statement that would have been followed had no treatment been prescribed by the scheme. In such cases, the following disclosures are made in the first financial statements following the amalgamation:

(a) A description of the accounting treatment given to the reserves and the reasons for following the treatment different from that prescribed in this Statement.

(b) Deviations in the accounting treatment given to the reserves as prescribed by the scheme of amalgamation sanctioned under the statute as compared to the requirements of this Statement that would have been followed had no treatment been prescribed by the scheme.

(c) The financial effect, if any, arising due to such deviation.”

The limited revisions come into effect in respect of accounting periods commencing on or after 1-4-2004. General Clarification (GC) – 4/2002, on AS 14, issued by the Accounting Standards Board, in June 2002, stands withdrawn from that date.
Limited Revisions to AS 20

The Council of the Institute of Chartered Accountants of India has decided to make the following limited revisions to Accounting Standard (AS) 20, Earnings Per Share:

Paragraph 48 of AS 20 has been decided to be modified as under (modifications made are shown as underlined):

“48. In addition to disclosures as required by paragraphs 8, 9 and 44 of this Statement, an enterprise should disclose the following:

(i) where the statement of profit and loss includes extraordinary items (within the meaning of AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies), the enterprise should disclose basic and diluted earnings per share computed on the basis of earnings excluding extraordinary items (net of tax expense); and

(ii) (a) the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period;
(b) the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other; and
(c) the nominal value of shares along with the earnings per share figures.”

As a consequence to the above, it has been decided to make the following modification in paragraph 51 of AS 20 (modifications made are shown in strike-through form):

“51. An enterprise may wish to disclose more information than this Statement requires. Such information may help the users to evaluate the performance of the enterprise and may take the form of per share amounts for various components of net profit, e.g., profit from ordinary activities. Such disclosures are encouraged. However, when such amounts are disclosed, the denominators need to be calculated in accordance with this Statement in order to ensure the comparability of the per share amounts disclosed.”

The limited revisions come into effect in respect of accounting periods commencing on or after 1-4-2004. General Clarification (GC) – 10/2002, Disclosure of Earnings Per Share figures in case of Extraordinary Items, issued by the Accounting Standards Board, in October 2002, stands withdrawn from that date.

Pursuant to the above limited revisions, the applicability paragraphs of AS 20, as modified to address the matter relating to Small and Medium Sized Enterprises (see November 2003 issue of the Institute’s Journal, Pp. 486 and 487), stand modified, in respect of accounting periods commencing on or after 1-4-2004, as under (modifications made are shown as underlined):

“Accounting Standard (AS) 20, ‘Earnings Per Share’, issued by the Council of the Institute of Chartered Accountants of India, comes into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature, from that date, in respect of enterprises whose equity shares or potential equity shares are listed on a recognised stock exchange in India.

An enterprise which has neither equity shares nor potential equity shares which are so listed but which discloses earnings per share, should calculate and disclose earnings per share in accordance with this Standard from the aforesaid date. However, in respect of accounting periods commencing on or after 1-4-2004⁴, if any such enterprise does not fall in any of the following categories, it need not disclose diluted earnings per share (both including and excluding extraordinary items) and information required by paragraph 48 (ii) of this Standard:

(i) Enterprises whose equity securities or potential equity securities are listed outside India and enterprises whose debt securities (other than potential equity securities) are listed whether in India or outside India.

¹Originally, no exemption was available to an enterprise, which had neither equity shares nor potential equity shares which were listed on a recognised stock exchange in India, but which disclosed earnings per share. It is clarified that no exemption is available even in respect of accounting periods commencing on or after 1-4-2004 to enterprises whose equity shares or potential equity shares are listed on a recognised stock exchange in India. It is also clarified that this Standard is not applicable to an enterprise which has neither equity shares nor potential equity shares which are listed on a recognised stock exchange in India and which also does not disclose earnings per share.
(ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors’ resolution in this regard.

(iii) Banks including co-operative banks.

(iv) Financial institutions.

(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include ‘other income’.

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.

(viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

Where an enterprise (which has neither equity shares nor potential equity shares which are listed on a recognised stock exchange in India but which discloses earnings per share) has been covered in any one or more of the above categories and subsequently, ceases to be so covered, the enterprise will not qualify for exemption from the disclosure of diluted earnings per share (both including and excluding extraordinary items) and paragraph 48 (ii) of this Standard, until the enterprise ceases to be covered in any of the above categories for two consecutive years.

Where an enterprise (which has neither equity shares nor potential equity shares which are listed on a recognised stock exchange in India but which discloses earnings per share) has previously qualified for exemption from the disclosure of diluted earnings per share (both including and excluding extraordinary items) and paragraph 48 (ii) of this Standard (being not covered by any of the above categories) but no longer qualifies for exemption in the current accounting period, this Standard becomes applicable, in its entirety, from the current period. However, the relevant corresponding previous period figures need not be disclosed.

If an enterprise (which has neither equity shares nor potential equity shares which are listed on a recognised stock exchange in India but which discloses earnings per share), pursuant to the above provisions, does not disclose the diluted earnings per share (both including and excluding earnings per share) and information required by paragraph 48 (ii), it should disclose the fact.

The following is the text of the Accounting Standard.”

Limited Revisions to AS 25

The Council of the Institute of Chartered Accountants of India has decided to make the following limited revisions to Accounting Standard (AS) 25, Interim Financial Reporting.

Paragraph 16 of AS 25 has been decided to be modified as under (modifications made are shown as underlined/strike-through):

“16. An enterprise should include the following information, as a minimum, in the notes to its interim financial statements, if material and if not disclosed elsewhere in the interim financial report:

(a) ...........

(b) material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;

(b) the effect of changes in the composition of the enterprise during the interim period, such as amalgamations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations; and

(i) material changes in contingent liabilities since the last annual balance sheet date.

The above information should normally be reported on a financial year-to-date basis. However, the enterprise should also disclose any events or transactions that are material to an understanding of the current interim period.”

The limited revisions come into effect in respect of accounting periods commencing on or after 1-4-2004.
Limited Revisions to AS 27

The Council of the Institute of Chartered Accountants of India has decided to make the following limited revisions to Accounting Standard (AS) 27, Financial Reporting of Interests in Joint Ventures.

Paragraph 6 of AS 27 has been decided to be modified whereas paragraph 9 thereof has been decided to be omitted as under (modifications made are shown as underlined/strike-through):

“6. In some exceptional cases, an enterprise by a contractual arrangement establishes joint control over an entity which is a subsidiary of that enterprise within the meaning of Accounting Standard (AS) 21, Consolidated Financial Statements. In such cases, the entity is not consolidated under AS 21 by the said enterprise, but is not treated as a joint venture as per this Statement. The consolidation of such an entity does not necessarily preclude other venturer(s) treating such an entity as a joint venture.”

“9. The contractual arrangement will indicate whether or not an enterprise has joint control over the venture, along with the other venturers. In evaluating whether an enterprise has joint control over a venture, it would need to be considered whether the contractual arrangement provides protective rights or participating rights to the enterprise. Protective rights merely allow an enterprise to protect its interests in the venture in situations where its interests are likely to be adversely affected. The participating rights enable the enterprise to jointly control the financial and operating policies related to the venture’s ordinary course of business. The existence of participating rights would evidence joint control.”

The limited revisions come into effect in respect of accounting periods commencing on or after 1-4-2004.

BOOK REVIEW

Managerial Accounting For Hospitals

G.R. Kulkarni B.A. (Hons), FICWA, DIP, M.A.

This book is an updated version of the book titled "Hospital Management Accounting, Planning and Control" written by the same author. The book indicates how the Management Accounting Principles and Techniques can be used while managing and administering hospitals. Managing a present-day hospital is a complex affair. It takes ingenuity of most capable administrators. This book will help in introducing accounting Controls to ensure proper safeguard of the assets belonging to the hospital, expenditure incurred genuinely for running the hospital and income generated, promptly and correctly brought into accounting books.

This book also suggests cost effective computerisation of accounting records to provide better service to patients and to generate management information.

The chart of accounts incorporated in the book provides a meaningful means for the analysis of cost and income for better control and to facilitate inter hospital comparison. The subject matter has been conveniently dealt with in the following Chapters:

- Budgeting
- Hospital Management Information System
- Working Capital
- Computerization in Hospitals
- Cost Accounting
- Sources of Funds
- Accounting Controls
- Productivity
- Pricing of Hospital Services
- Investment Decisions
- Accounting Review
- Chart of Accounts

The efforts of the author are commendable and the book will be helpful not only to the administrators running a hospital but also to the practicing Chartered Accountants.