



**GOVERNMENT OF KERALA**

**Planning & Economic Affairs (BPE) Dept.**

**No.1335/BPE2/06/Plg.**

**Thiruvananthapuram,**

**Dated, 24/03/2006.**

**CIRCULAR**

Sub: Public Sector Undertakings -"Persistent Non-compliance with Accounting Standards in the preparation of financial statements" - regarding.

Ref: Lr.No.Rep (Comml)/DP 28/AR 2004-05/264, dated 4<sup>th</sup> July 2005 from the Principal Accountant General (Audit), Kerala, Thiruvananthapuram.

The preparation of financial statements of a company and its presentation before the meeting of members is one of the major duties of the management. In preparing the financial statements each company has to comply with the Accounting Standards (AS). Accounting Standards are the acceptable standards of accounting recommended by Institute of Chartered Accountants of India and prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards. The purpose of introducing AS is to facilitate the adoption of standard accounting practices by companies so that the annual accounts prepared exhibit a true and fair view of the transactions and also to eliminate the incomparability of the information contained in published financial statements of companies. Section 211 (3A) of the Companies Act 1956 made it obligatory to every company to prepare the financial statements in compliance with the AS.

1. AS 15 which deals with accounting for retirement benefits to employees viz., provident fund, pension, gratuity, leave encashment etc, provides that the contribution payable by the employer towards retirement benefits be charged

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to statement of Profit and Loss for the year on accrual basis and the accruing liability calculated according to actuarial valuation. The financial statements should also disclose the method by which retirement benefit cost for the period has been determined.

2. AS 17 which deals with segment reporting establishes principles for reporting financial information about the different types of products and services and also the different geographical areas in which it operates.
3. Accounting for construction contracts and the allocation of revenues and related costs to accounting periods over the duration of the construction contract are dealt in AS 7.
4. AS 2 deals with the determination of the value at which inventories are carried in financial statements until the related revenues are realised and provides that inventories should be valued at the lower of cost or net realizable value.
5. AS 11 deals with accounting for foreign currency transactions and how to recognise the financial effect of changes in exchange rates in financial statements.
6. AS 13 deals with accounting for investments and provides that current investments should be valued in books at lower of cost or fair value and long term investments at cost except when there is a decline, other than temporary in its value.
7. Method of accounting for government grants whether it is related to revenue or capital purpose is dealt in AS 12. However this AS is persistently flouted while accounting Government grant in their financial statements.
8. AS 9 provides the basis for recognition of revenue in the statement of profit and loss.
9. Cash flow statement is one of the important financial statements of an enterprise as it provides valuable information to the user regarding the generation and use of cash and cash equivalents.

In the letter dated 4<sup>th</sup> July 2005, the Principal Accountant General has stated that on a review of financial statements and Statutory Auditors report thereon in

respect of most of the Public Sector Undertakings revealed the non-compliance of Accounting Standards.

In the circumstances, the Chief Executives of all Public Sector Undertakings are directed to comply with the Accounting Standards (AS) as per Section 211 (3A) of the Companies Act, 1956, while preparing the financial statements of their respective Companies.

T. Balakrishnan,  
Principal Secretary to Government

To

The Principal Accountant General (Audit), Kerala, Thiruvananthapuram

The Chief Executives of all Public Sector Undertakings,

All Administrative Departments of the Secretariat including Finance -

*[The Administrative Department is requested to distribute copies of the Circular to other sections in the same Department other matters of Public Sector Undertakings are dealt with.]*

The Finance (PU – A/B) Department - vide U.O.No.5523/PU-A3/06/Fin,  
dated 31/01/2006.

The P.A. to Principal Secretary (BPE).

The C.A. to Director (BPE)

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