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Govt may defer implementation of accounting standard-11

Relief for cos as forex losses would dent profit.

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New Delhi, March 27 The Ministry for Corporate Affairs (MCA) may defer the implementation of the accounting standard (AS-11) that deals

with foreign exchange differences. This would come as a respite for corporate India, which has been hit by the recent rapid depreciation of the rupee against the US dollar.

Simply put, companies may not be required to take their losses arising from exchange differences to their profit and loss account for the accounting period ended March 31, 2009.

The likely deferment on the application of the AS-11 by the Government follows a recommendation made by National Advisory Committee on Accounting Standard (NACAS) at its meeting on Wednesday.

NACAS, which was constituted to advise the Government on formulation of accounting standards to be followed by corporate entities, has suggested deferring the implementation of AS-11 to 2011.

Amendments suggested

Official sources told *Business Line* that “historically, the Ministry has not gone against NACAS recommendations. However, the Ministry was yet to take a final view.”

“While proposing a postponement NACAS has also suggested certain amendments in AS 11,” official sources said, while declining to disclose the exact changes proposed.

Cos don't comply

AS-11 deals with mark-to-market provisioning in corporate profit and loss accounts for foreign exchange-related gains and losses. However, despite the Institute of Chartered Accountants of India (ICAI) notifying the norm, several big companies were not following it and instead were complying with Schedule VI of the Companies Act.

Placing of losses

The Companies Act stipulates that as a result of exchange rate fluctuation, any change in the repayment liability needed to be added or deducted from the cost of fixed assets and allows such losses to be capitalised.

In order to put to rest the controversy, the Ministry had referred the matter to NACAS. “While deferring the implementation of AS-11, NACAS has suggested some transitional arrangement should be made for the shift from Schedule VI to AS-11,” sources said.

ICAI, on the other hand, has been opposing any deferment. Members of the Institute argued that “companies were taking the forex fluctuations to the profit and loss account when they were making profits, but now that they are making losses, they don’t want to take it to profit and loss account.” Further, the Institute’s council was also yet to take a view on AS-11, even as it claimed that the majority of its council members were not in favour of deferment.