International Journal of Trend in Scientific Research and Development (IJTSRD)
Volume: 3 | Issue: 4 | May-Jun 2019 Available Online: www.ijtsrd.com e-ISSN: 2456 - 6470

Application of Indian AS 1, AS 2, AS 3 at Rittal India Pvt. Ltd., an Galore

Dr. Vijayakumar A B

PG Department of Commerce and Management,
Seshadripuram First Grade College, Bangalore, Karnataka, India

How to cite this paper: Dr. Vijayakumar A B "Application of Indian AS 1, AS 2, AS 3 at Rittal India Pvt. Ltd., an Galore" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-3 | Issue-4, June 2019, pp.284-287, URL: https://www.ijtsrd.com/papers/ijtsrd23669.pdf

IJTSRD23669

ABSTRACT

Accounting is an important tool in the hands of management. It helps the management of an organization to have control over its performance. The success of a business entity depends on the combined effects of four factors – land, labour, capital and management. The contribution of each factor has to be properly measured and then only the resultant performance of the entity can be properly evaluated.

Accounting in a broad sense, is a tool adopted to measure the transaction, transformation, events, etc., usually involving money as a medium of exchange. At the end of accounting period financial statements are prepared.

This study covers the Accounting Standard 1, 2, 3 practices and applicability in the Rittal India Pvt. Ltd is measured and concluded that the company reporting practices are highly transparent and practicing as per the ICAI guidelines.

Keywords: *Accounting standards, financial statements, Inventory*

Accounting Standards in India are recommended by the Institute of Charted Accountants of India (ICAI) and notified by the Central Government.

APPLICABILITY OF ACCOUNTING STANDARDS FOR COMPANIES

At present there are two sets of Accounting Standards under Companies Act as under:

- Accounting Standards (AS) as notified by the Companies (Accounting Standards) Rules, 2006. These are from AS-1 to AS-7 and AS-9 to AS-29, as amended by notification dated 30th March, 2016.
- Indian Accounting Standards (Ind AS) as notified by the companies (Indian Accounting Standards) Rules, 2015. These are from Ind AS-1 to Ind AS-41 and Ind AS-101 to Ind AS-114 as amended by Companies (Ind AS) Amendment Rules, 2016 dated 30th March.

The Central Govt. in exercise of powers under section 211 (3c) of the Companies Act, 1956 notified the Companies (Accounting Standards) Rules, 2006 in the official Gazette w.e.f. accounting period commencing on or after 7-12-2006 (now deemed to be Accounting Standard as specified under section 133 of the companies Act, 2013)

- The rules provided that Accounting Standards 1 to 5 & 7 and 9 to 29 recommended by the Institute of Charted Accountants of India shall be the “Accounting Standards” (referred to as the “Notified Accounting Standards”) for the purpose of section 129(1) and section 143(3)(e) of the Companies Act, 2013.
- The notified accounting standards for the most part, are a verbatim reproduction of the Accounting Standards as issued by the Institute of Charted Accountants of India.
- All the 30 Accounting Standards Interpretations issued by Institute of Chartered Accountants of India.
- The notified Accounting Standards are mandatory for all companies and their auditors except as exempted/ relaxed for SMCs.
- Exemptions/ relaxations to Small and Medium Companies (SMCs) have been given.

The definition of SMCs is much simpler than the definition of SMEs given by Institute of Chartered Accountants of India (which involved classifying enterprises in Level-1 enterprises, Level-2 enterprises and Level-3 enterprises).
Transitional provision under Rule 7 of Chapter 9 of the new Companies Act, 2013 provides the standards of accounting as specified under the Companies Act, 1956 (1 of 1956) shall be deemed to be the accounting standards until accounting standards are specified by the Central Government under section 133.

REVIEW OF LITERATURE

- **Julia Zicke and Florian Kiy (2017): “The effects of Accounting Standards on the Financial Reporting properties of private firms: evidence from the German Accounting Law Modernization Act”.**

In this study they are analyzed and present the main changes in the accounting rules and disclosure requirements of German accounting law and examine their effects on financial accounting properties. They examine that medium-sized non-listed companies were a target of the German Accounting Law Modernization Act.

- **Hossain and Ujjal (2016): "effects of Adopting International Accounting Standards on Financial Statements".**

In this study the researcher clear that there are various impacts of adopting IAS on firm but the most important factor is that IAS has a great impact on Financial Statement of the firm. Researcher also found that adopting IAS has not only direct impact but also indirect impact on firms. IAS affects management decision making process, cost of capital, the availability of relevant and crucial information accountability of management, operating environment of the firms. In conclusion, it can be easily said that every process there have the combination of good effect and bad effect but in adopting IAS there are too many positive effect on firms to describe.

- **Kenneth Enoch Okpala (2012): "Adoption of IFRS and Financial Statements effects: The perceived implications on FDI and Nigeria Economy".**

In his study he focus on the implication of IFRS on the economy is the fact that financial reporting among the countries that have adopted standards is uniformity and comparability as well as the ease on interpretation of financial statements. The researcher analyzed that to prepare and audit financial statements, some accounting convention and principles known as standards have been put in place by appropriate bodies set up for the purpose to encourage uniformity and reliability.

- **Clare Wang (2011): "Accounting Standards Harmonization and Financial Statement Comparability: Evidence from Transnational Information Transfer".**

The researcher investigates whether harmonization of accounting standards enhances financial statement comparability, defined as an increase in the correlation between measurement errors across two firm's information signals. Researcher empirically test the prediction that a firm yet to announce earnings react more strongly to the earnings announcement of a foreign firm when both report under the same rather than different accounting standards.

- **European Central Bank (2006): "Assessment of Accounting Standards from a Financial Stability perspective".**

This study is analyzed that the accounting standards can have a significant impact on the financial system, in particular via their potential influence on the behavior of economic agents. This study is mainly focuses on the recent introduction of the new accounting framework – based on the IFRSs in Europe and analyses the possible consequences thereof for, in essence, the banking sector and other financial firms from the perspective of system – wide financial stability.

STATEMENT OF THE PROBLEM

Accounting Standards and its implications on Financial Statements. It was a common practice of many organizations fudge the figure of various transactions in the books of accounts. Before the introduction of the Indian Accounting Standards issued by the ICAI, there is room for hedge of the deals, which resulted in partial disclosure of the financial performance of the organization. Most organization in India transparency, consistency and uniformity in giving accounting treatments to the various assets and liabilities. Realizing the lacunas of the accounting policies and the treatments and with the introduction of the International Accounting Standards for Indian companies. There is no other option, except adhering to the mandatory accounting standards to be implemented in preparing the annual reports of the company.

OBJECTIVES OF THE STUDY

- To analyze the implications of Accounting Standard 2 Valuation of Inventory and Accounting Standard 3 Cash flow statement adoption in the RITTAL INDIA Pvt Ltd.
- To understand the accounting policies followed at RITTAL INDIA Pvt Ltd.

AS 1- DISCLOSURE OF ACCOUNTING POLICIES

This AS- 1: Disclosure of Accounting Policies is applicable to Rittal India Pvt Ltd. The financial statement are prepared under Historical Cost Convention on Accrual basis of accounting to comply in all material respects with mandatory accounting standards as notified by the companies (AS) rules, 2006 issued by the Central Government in consultation with National Advisory Committee on Accounting Standards (NACAS), specified under section 133 of the companies Act, 2013 read with rule of 7 of the companies Act, 2014 and the relevant provisions of the Companies Act, 1956 to the extent applicable and Companies Act, 2013 to the notified and applicable to the company.

TABLE NO 1 TABLE SHOWING DISCLOSURE OF ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING POLICIES :

- Inventory valuation
- Cash flow statement
- Prior period items
- Depreciation
- Revenue Recognition
- Fixed Assets
- Government grants
- Investments
- Borrowing cost

ANALYSIS AND INTERPRETATION:

Above mentioned are under the various accounting policies which are followed in Rittal India Pvt Ltd and are in accordance with the requirements of Accounting Standards given by the ICAI.

Accounting policies and notes on balance sheet and P & L account has now become mandatory to annex notes to the financial statement disclosing the accounting policies and also explaining the treatment of certain items that appear in the P & L account and balance sheet. This helps understanding and interpreting of accounting numbers.

AS 2- VALUATION OF INVENTORIES

This AS 2 valuation of Inventories is applicable to Rittal India Pvt Ltd. The inventories as such raw materials, work-in-progress, finished goods are valued at **cost or net realizable value** whichever is lower (WEL) and the formula for valuation of all these inventories is **FIFO** (First-In- First-Out).

The basis for determining cost for various categories of inventories is as follows:

Types of inventories	Basis
Goods in transit	Valued at cost or Net realizable value WEL
Raw material and packing material	Valued at cost or Net realizable value WEL
Work in progress	Cost of conversion
Finished goods produced	Standard production cost
Imported finished goods	Valued at cost or Net realizable value WEL

DISCLOSURE:
The financial statement of Rittal has disclosed the following items while valuation of inventories is taken place:-
- The accounting policy adopted in measuring inventories
- Cost formula used
- Classification of inventories are,
- Raw materials and components
- Work-in-progress
- Finished goods
- Stock-in-trade (in respect of goods acquired for trading)
- Stores and spares
- Loose tools

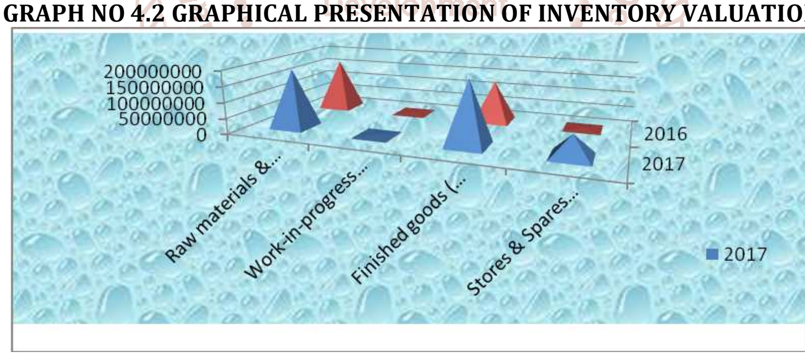
TABLE NO 4.2 TABLE SHOWING INVENTORY VALUATION

Particulars	31-03-2017	31-03-2016
Raw materials & packing materials	18,88,47,624	16,89,78,024
Work-in-progress	36,06,221	27,02,555
Finished goods	19,98,58,553	13,25,74,403
Stores & Spares	6,65,25,014	52,03,304
Total	45,88,37,412	30,94,58,286

Source: Annual reports

ANALYSIS:
The above table is clearly showing that the value of different inventories at the end of the year 2017 and 2016. These inventories are valued at the cost or Net realizable value WEL other than work in progress. Work in progress is valued at cost of conversion. The company is maintaining the method for inventory valuation as per AS-3 issued by ICAI.

GRAPH NO 4.2 GRAPHICAL PRESENTATION OF INVENTORY VALUATION



Source: Annual reports

INTERPRETATION:
The above graphical presentation indicates that all the inventories are increased in 2017 i.e., Raw materials, Work in progress, Finished goods and Stores & Spare parts compared to 2016.Hence we can conclude that the valuation of inventories are much important for preparing the financial statements. It is mainly effect on the gross profit or loss of the company.

AS 3- CASH FLOW STATEMENT
This accounting standard is applicable to Rittal India Pvt Ltd., Cash and cash equivalents included in the cash flow statement, comprises the cash in hand and balance with scheduled banks in current accounts.
The company has prepared the Cash flow statement under the “Indirect Method” as set out in Accounting Standard 3 issued by Companies (Accounting Standards) Rules, 2006.

TABLE NO 4.3 TABLE SHOWING CASH FLOW FROM DIFFERENT ACTIVITIES

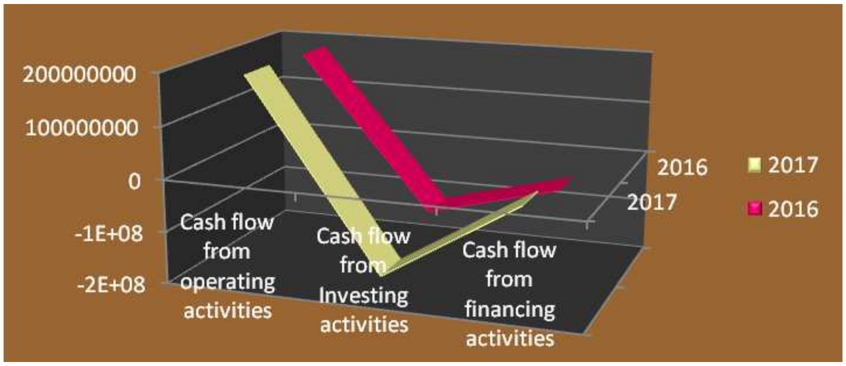
Particulars	2017	2016
Cash flow from operating activities	19,13,01,604	18,55,38,095
Cash flow from Investing activities	(16,60,50,102)	(11,39,82,017)
Cash flow from financing activities	(65,53,719)	(4,63,33,072)

Source : Annual reports

ANALYSIS :

The above table states that cash flow statement of the comapny at different activities in the year 2017 and 2016. Cash flow from operating activities are more than other two activities in both the year. but when compare to 2016, which may slighter increase in 2017. Cash flow from investing as well as financing are also increases in the year 2017 comapre to 2016.

GRAPH NO 4.3 GRAPHICAL PRESENTATION OF CASH FLOW STATEMENT



INTERPRETATION:

The above graph shows that the cash inflow from operating, investing and financing activities in the year 2017 and 2016. There is a decrease in investing and financing activities and it is good sign for the company. While maintaining this AS – 3 as cash flow statement may helps to the company for decision making in different department in and out of the company.

DISCLOSURE:

- The Rittal India Pvt Ltd discloses the components of cash and cash equivalents and presents a reconciliation of the amount in the cash flow statement with the equivalent items reported in the balance sheet.
- The Rittal India Pvt Ltd discloses the amount of significant cash and cash equivalent balance held by the co., that are not available for use by it with explanation of management.

FINDINGS

The study is about implication of accounting standards at Rittal India Pvt Ltd. The data is mainly gathered from the secondary data as annual reports of the company were relied upon. And after in depth study an Accounting Standards implication level in the company. The researcher came out with the following findings.

- **AS – 1 : The disclosure of Accounting Policies**

The disclosure of Accounting Policies which is AS – 1 in the form of mandatory in nature deals with the treatment mentioned out to different assets and liabilities of the company. The Researcher found that the bases of preparing financial statement in the company are Indian GAAP and Accounting Standards of ICAI.

- **AS – 2 : The Valuation of Inventories**

The valuation of inventories in the company is on the basis of AS – 2 which were mandatory from 1-4-1999. Some of the inventories are valued on the cost or net realizable value whichever is lower, while the others are valued on the basis of weighted average cost (cost).

- **AS – 3 : Cash Flow Statement**

AS – 3 deals with preparation of Cash Flow Statement. This standard became mandatory from 1-4-2001. The company prepares its cash flow statement based on cash inflows and cash out flows. The company follows indirect method of cash flow statements.

Conclusion

The objective of this study is to find out the various Indian Accounting Standards that are applicable to Rittal India Pvt Ltd. To find the extent to which the requirements of the applicable standards are adhered to and ascertain the implications of non-adherence of any accounting standards and finally to find out the extent to which the financial statements of Rittal India Pvt Ltd are meeting the requirements and expectations of the users of the financial statements.

It is observed in the organization, the adoption of majority of applicable Accounting Standards has brought in transparency and fair disclosures of financial and other performance at the company. Slowly the stakeholders are gaining faith in the information disclosed by the company in tune with the accounting standards.

References

[1] Annual reports of Rittal Pvt. India Ltd (2015-16 and 2016-17)