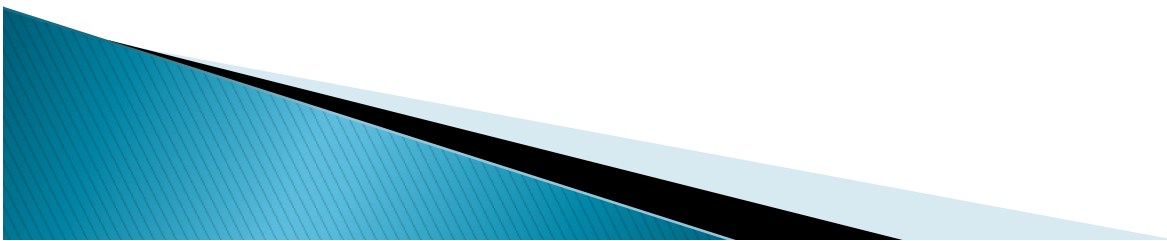


ACCOUNTING STANDARDS AND CO-OPERATIVE HOUSING SOCIETIES

CA CHANDRASHEKHAR IYER

What is a Co-operative Society

A **cooperative society** means, a society registered or deemed to be registered under any law relating to cooperative societies for the time being in force in any State or under the Central act.



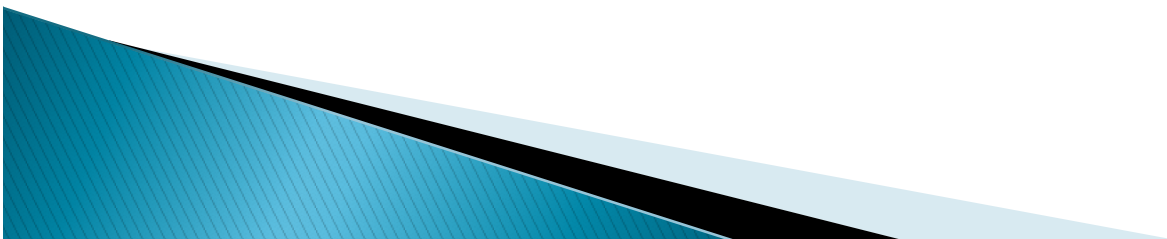
Legislations Governing Co-operative Societies

- ▶ **State Act :**

The societies whose main objective is to serve the interests of its members in a particular State, are governed by the Cooperative Societies Act of that State.

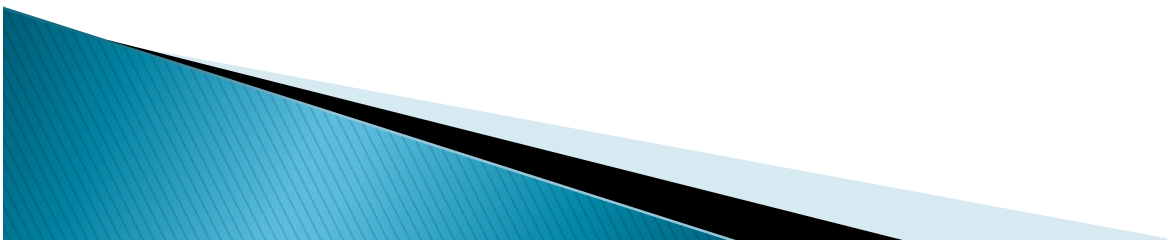
- ▶ **Central Act :**

While, a Society whose main objectives is to serve the interests of its members in more than one State, are governed by the **Multi-State Cooperative Societies Act, 2002**



Law Governing Co-operative Societies in Maharashtra

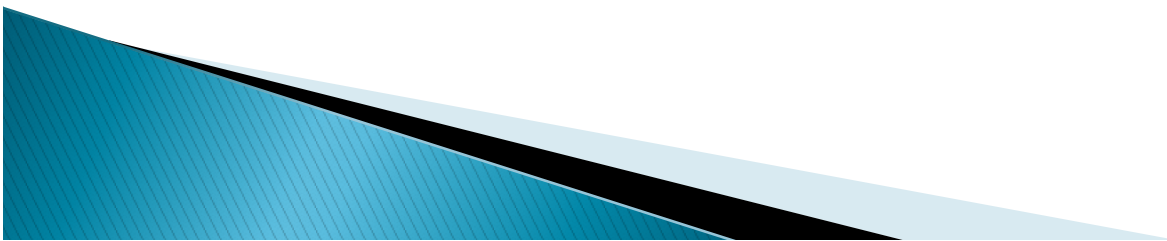
- ▶ The Maharashtra Co-operative Societies Act , 1960 (MCS Act, 1960)
- ▶ Maharashtra Co-operative Societies Rules, 1961



What are accounting standards?

Are policy documents covering the aspects of recognition, measurement, presentation and disclosure of accounting transaction in the financial statements.


Accounting standards describes the accounting principals, valuation techniques and methods of applying the accounting principals in the preparation and presentation of financial statements so that they may give a true and fair view.



Who has set these accounting standards?

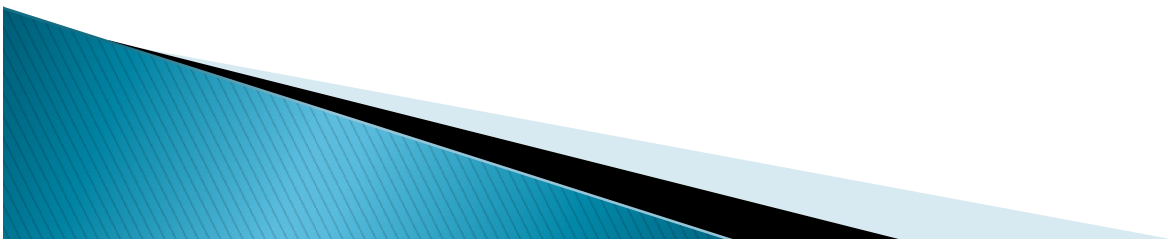
The ICAI has set up an Accounting Standard Board who have issued accounting standards and standards of auditing practices.

Objective of accounting standards

- To standardize the diverse accounting policies and practices with a view to eliminate to the extent possible confusing variations in the accounting treatment used to prepare financial statements
 - To ensure correct accounting treatment
- 

Notification regarding Applicability Accounting Standards for the cooperative Audit

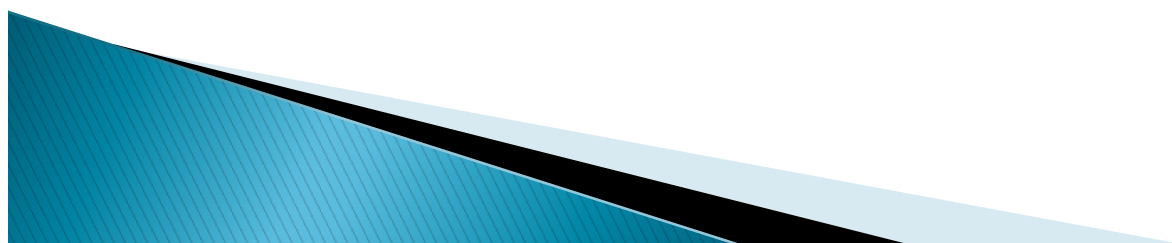
- ▶ No.CSL.2014/C.R.54/13C,dated 6th May 2014
Considering the need to harmonize diverse accounting policies and practices and also considering above legal requirement and in exercise of the powers conferred by clause (iv) of sub-rule (4) of Rule 69 of the Maharashtra Co-operative Societies Rules, 1961, the Government of Maharashtra hereby notifies “Accounting Standards issued by ICAI, New Delhi are applicable to Co-operative Societies and co-operative banks



Accounting Standards issued by ICAI

| AS No | Details |
|-------|--|
| AS1 | Disclosure of Accounting Policies |
| AS2 | Valuation of Inventories |
| AS3 | Cash Flow Statements |
| AS4 | Contingencies and Events Occurring after the Balance Sheet Date |
| AS5 | Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies |
| AS6 | Depreciation Accounting |
| AS7 | Construction Contracts |
| AS9 | Revenue Recognition |
| AS10 | Accounting for Fixed Assets |

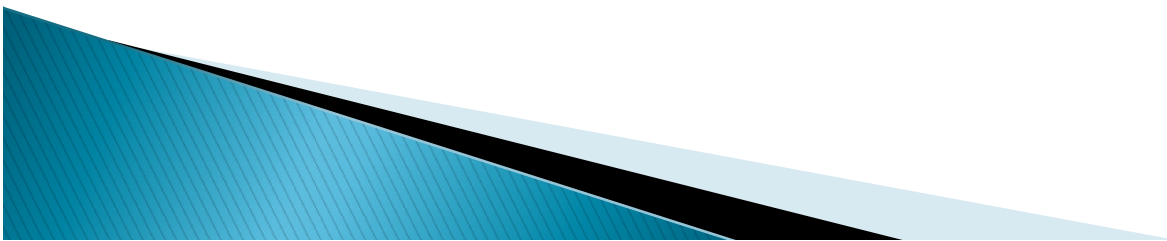
| AS No | Details |
|-------|--|
| AS11 | The Effects of Changes in Foreign Exchange Rates |
| AS12 | Accounting for Government Grants |
| AS13 | Accounting for Investments |
| AS14 | Accounting for Amalgamations |
| AS15 | Employee Benefits |
| AS16 | Borrowing Costs |
| AS17 | Segment Reporting |
| AS18 | Related Party Disclosures |
| AS19 | Leases |
| AS20 | Earnings Per Share |
| AS21 | Consolidated Financial Statements |



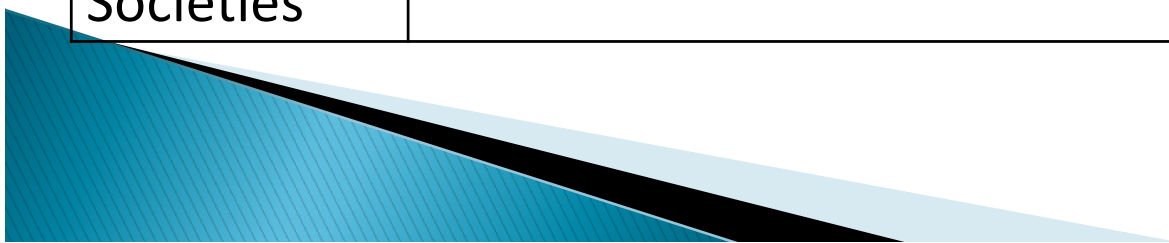
| AS No | Details |
|-------|---|
| AS22 | Accounting for Taxes on Income |
| AS23 | Accounting for Investments in Associates in Consolidated Financial Statements |
| AS24 | Discontinued Operations |
| AS25 | : Interim Financial Reporting |
| AS26 | Intangible Assets |
| AS27 | Financial Reporting of Interests in Joint Ventures |
| AS28 | Impairment of Assets |
| AS29 | : Provisions, Contingent Liabilities and Contingent Assets |
| AS30 | Financial Instruments: Recognition and Measurement |
| AS31 | : Financial Instruments: Presentation |
| AS32 | Financial Instruments: Disclosures |

Applicability of Accounting Standards

- ▶ These accounting standards are applicable mandatorily to different types of Societies as follows. For applicability, societies are classified in three different levels
 - Level 1
 - Level II
 - Level III



| | |
|------------------------------|---|
| Level one Societies | <ul style="list-style-type: none">a) Banksb) Societies whose turnover (excluding other income) exceeds Rs. 50 crores in immediately preceding accounting yearc) Societies having borrowing including deposits exceeds Rs. 10 crores at any time during immediately preceding accounting year. |
| Level Two Societies | <ul style="list-style-type: none">a) Societies having turnover (excluding other income) exceeds Rs. 1 crore but does not exceed Rs. 50 crores in immediately preceding accounting year.b) All societies having borrowing (including deposits) exceeds Rs. 1 crores but does not exceed Rs. 10 crores at any time during immediately preceding accounting year. |
| Level Three Societies | Societies not covered in (1) and (2) above |



Summary of different accounting standards that are applicable to different levels of co-operative society

1- Level one Societies - Applicable Accounting Standards

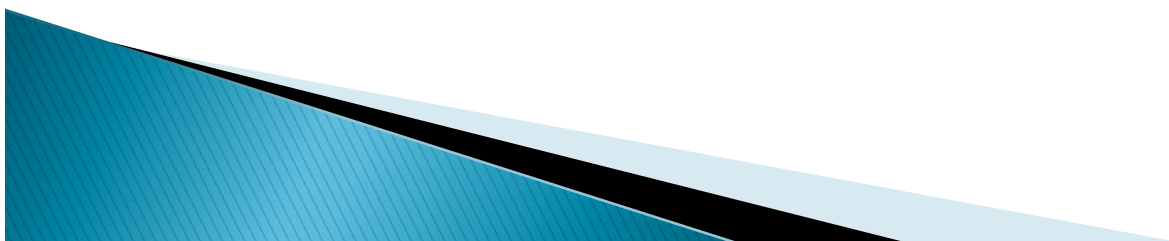
1,2,3,4,5,6,7,9,10,11,12,13,14,15,16,17,18,19,20,22,24,26,28,29,30,31,32

2-Level Two Societies - Applicable Accounting Standards


▶ 1,2,4,5,6,7,9,10,11,12,13,14,15,16,18,19,20,22,24,26,28,29

3.Level Three Societies - Applicable Accounting Standards

▶ 1,2,4,5,6, 9,10,11,12,13,14,15,16,19,20,22,26,28,29

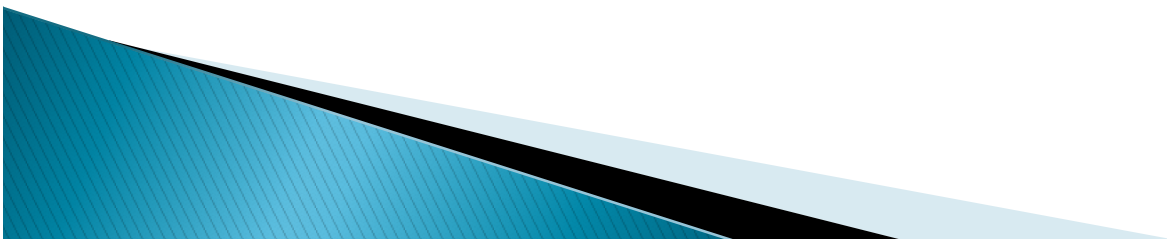


What is our role as auditors?

- To check if the society has followed all relevant accounting standards
 - In case of deviation, opine the same in the report
 - Providing audit report under SA 700 –
 - ❖ Evaluating the appropriateness of the accounting policies used
 - ❖ The reasonableness of the accounting estimates made by the society
 - ❖ Overall presentation of the financial statement
 - When we state the above matter, it is presumed that
 - ❖ Accounting standards are taken into consideration while assessing the financial statement.
 - In case of change of auditor , it is necessary to see if the earlier years financials comply with the accounting standards before submitting the audit report.
- 

AS 1 Disclosure of Significant Accounting policies

- Accounting assumptions :
 - ✓ Going Concern
 - ✓ Consistency
 - ✓ Accrual
- Disclosure of Accounting Policies
- Principal of materiality

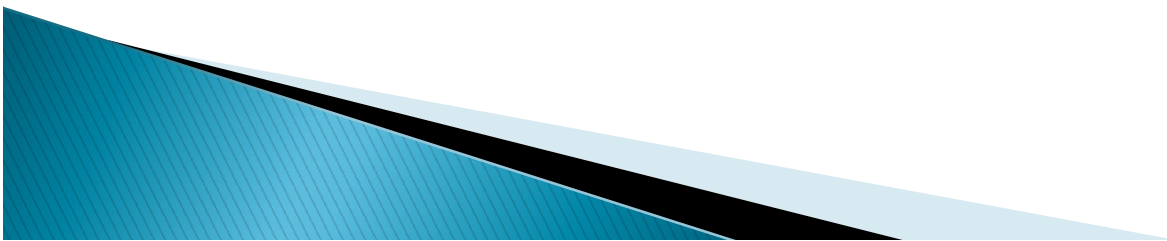


AS 4 Contingent Events & Event after Balance Sheet Date

- Events occurring after Balance Sheet Date

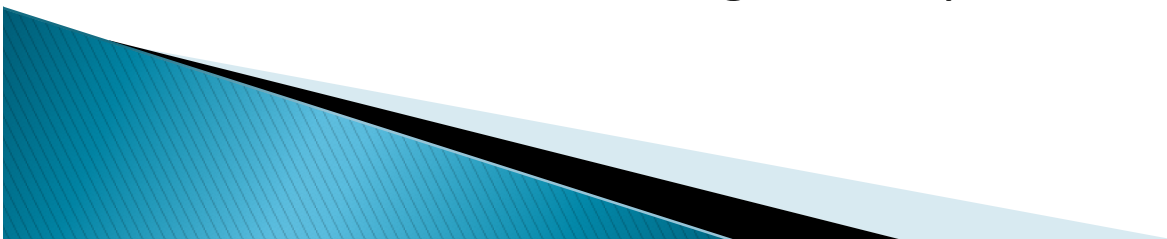
AS 5 Prior Period Items & Change in Estimates

- Change in an accounting policy v/s. change in accounting estimates.
- Prior period items – error / omission / commission.
- Separate disclosure for prior period items.
- Disclosure for change in accounting policies / estimates.



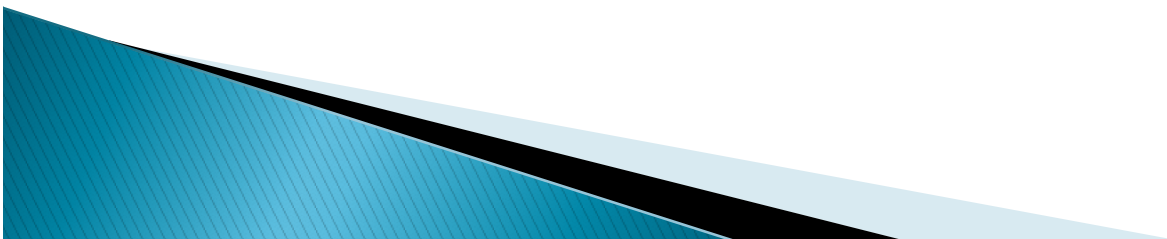
AS 6 Depreciation Accounting

- The depreciation is an systematic charge of the economic use of the asset over useful life.
- Determination of an useful life and method of depreciation.
- Depreciation is provided in majority cases as per rates and manner under Income Tax Act.
- The Co-operative Act is silent on the rates / manner / method of depreciation.
- The disclosure requirement as per AS 6.
- Historical cost or other amounts substituted for historical costs should be disclosed.
- Total depreciation for each class of asset must be clearly shown.
- Related Accumulated Depreciation also needs to be shown
- Are we disclosing the depreciation schedule correctly? When all these details are to be gives as per the standard.



AS 9 Revenue Recognition

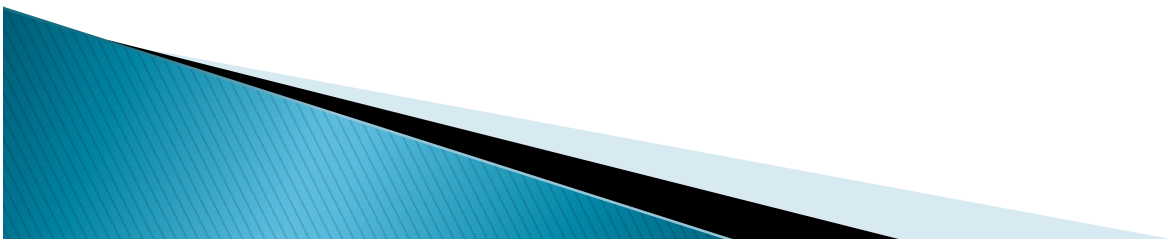
- Recognition of sale of goods
- Transfer of significant risk and reward of ownership.
- No significant uncertainty exists regarding amount of consideration.
- Interest is recognize on time proportion basis and no significant uncertainty as to measurability and collectability exists.
- RBI prudential norms for recognition of revenue in case of substandard, doubtful and loss assets – Co-operative Bank.
- Recognition of revenue from locker rent, overdue interest, bank guarantee commission etc.
- Recognition of revenue – contribution from members




AS 10 Accounting for Fixed Assets

- Determination of Cost for Accounting
- Non-monetary Consideration
- When a fixed asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident.
- An alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, is to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.

Examples: UPS/Computers & its peripherals, Generating Sets etc.



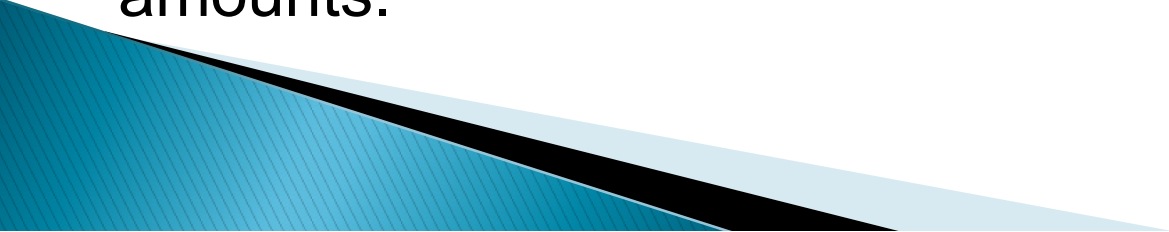
AS 10 Accounting for Fixed Assets

- Revaluation of Fixed Assets:
 - An increase in net book value arising on revaluation of fixed assets is normally credited directly to owner's interests under the heading of revaluation reserves and is regarded as not available for distribution of dividend.
 - A decrease in net book value arising on revaluation of fixed assets is charged to profit and loss statement except that, to the extent that such a decrease is considered to be related to a previous increase on revaluation that is included in revaluation reserve, it is sometimes charged against that earlier increase.
 - It sometimes happens that an increase to be recorded is a reversal of a previous decrease arising on revaluation which has been charged to profit and loss statement in which case the increase is credited to profit and loss statement to the extent that it offsets the previously recorded decrease.
- 

AS 10 Accounting for Fixed Assets

Disclosure:


The following information should be disclosed in the financial statements:

- Gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements;
 - Expenditure incurred on account of fixed assets in the course of construction or acquisition; and
 - Revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.
- 

AS 20 Earning Per Share

- Applicable to all levels of enterprises except diluted earning per share not applicable to Level II and Level III enterprises.
- Calculation of earning per share.
- EPS whether applicable to CHS ???

AS 22 Accounting for Taxes on Incomes

- Provision for Income Tax Liability
 - Netting off of provision for tax and Advance Tax / TDS for disclosure.
 - Calculation of Differed Tax / Liability and presentation in the financial statement.
 - Special reserve created under Income Tax Act and impact in differed tax calculation – EAC opinion of ICAI.
 - Identification of temporary / permanent differences.
 - Disclosure of components of differed tax.
 - Whether AS 22 is applicable to CHS
- 

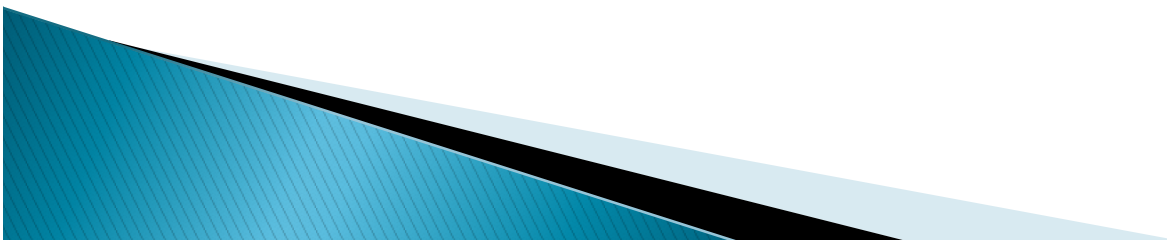
AS 28 Impairment of Assets

The objective of this Statement is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount.

An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset.

If this is the case, the asset is described as impaired and the society is required to recognise an impairment loss.

It is also essential to know when a society should reverse an impairment loss and make certain disclosures for impaired assets.



AS 28 Impairment of Assets

Recognition and Measurement

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss should be recognised as an expense in the statement of profit and loss immediately, unless the asset is carried at revalued amount in accordance with another Accounting Standard (see Accounting Standard (AS) 10, Accounting for Fixed Assets), in which case any impairment loss of a revalued asset should be treated as a revaluation decrease under that Accounting Standard.

At each Balance Sheet date it should be assessed whether any indication that any asset may be impaired. If such indication exist then method through which the recoverable amount is arrived at

Situations of Impairment losses in Co-operatives:

Plant or Machinery/ Equipments of Dairy or Sugar Factory.

Buildings and others movable assets .

AS 29 Provision for Contingencies

Determination of Asset and Liability and Contingent Liability

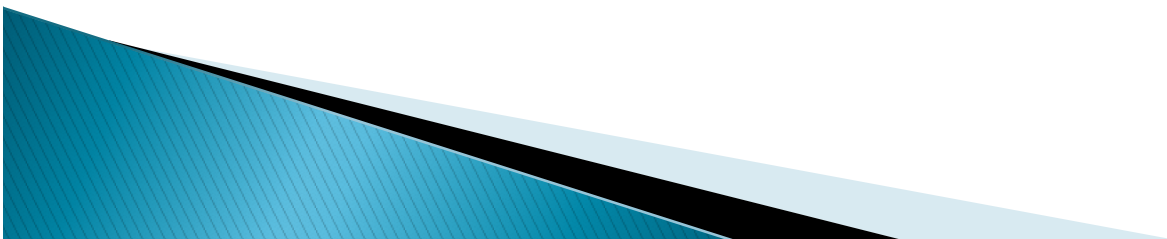
Reasonable certainty.

- Probable
- Possible
- Remote


Disclosure of movement of provisions

Treatment of Contingent Assets

Virtual certainty.



Applicability – Standards on Auditing for co-operative audits

- ▶ No. CSL.2014/CR.53/13 C Dated 12th August 2014.:In exercise of the Powers conferred by sub -section (2) of section 81 of the MCS Act 1960, the Government of Maharashtra hereby notifies the auditing standards No. mentioned in coloumn (2) of the schedule appended hereto , being auditing standard specified by the Insititute of Chartered Accountants of India , and explained in detail in column (3) of the said schedule to be the standards for the audit of accounts of the co-op societies under the said Act.
- 

Schedule

| Sr.No (1) | Auditing Standard No (2) | Name of Auditing Standard (3) |
|--------------|-----------------------------------|--|
| 1 | 200 | Overall objective of the Independent Auditor and the conduct audit in accordance with the SA |
| 2 | 210 | Agreeing the terms of audit engagements |
| 3 | 220 | Quality control for an audit of financial statements |
| 4 | 230 | Audit documentation |
| 5 | 240 | Auditors responsibilities relating to fraud in audit of financial statements |
| 6 | 250 | Consideration of laws and regulations in an audit of financial statements |
| 7 | 260 | Communication with those charged with Governance |
| 8 | 265 | Communication of deficiencies in internal control to those charged with Governance & Mgt |
| 9 | 299 | Responsibility of Joint auditors |
| 10 | 300 | Planning and audit of financial statements |

Schedule

| Sr.No (1) | Auditing Standard No (2) | Name of Auditing Standard (3) |
|--------------|-----------------------------------|--|
| 11 | 315 | Identifying and assessing the risk of material misstatement through understanding the entity & its environment |
| 12 | 320 | Materiality in planning & performing an audit |
| 13 | 330 | Auditors responses to Assessed risks |
| 14 | 402 | Audit considerations relating to an entity using a service organisation |
| 15 | 450 | Evaluation of misstatement identified during the audit |
| 16 | 500 | Audit Evidence |
| 17 | 501 | Audit Evidence – specific considerations for selected items |
| 18 | 505 | External confirmations |
| 19 | 510 | Initial audit engagements – opening balances |
| 20 | 520 | Analytical procedures |

Schedule

| Sr.No (1) | Auditing Standard No (2) | Name of Auditing Standard (3) |
|--------------|-----------------------------------|--|
| 21 | 530 | Audit Sampling |
| 22 | 540 | Auditing accounting estimates including fair value estimates and related disclosures |
| 23 | 550 | Related party |
| 24 | 560 | Subsequent events |
| 25 | 570 | Going concern |
| 26 | 580 | Written representations |
| 27 | 600 | Using work of another Auditor/s |
| 28 | 610 | Using work of Internal auditors |
| 29 | 620 | Using work of Expert Auditors |
| 30 | 700 | Forming an opinion and reporting on financial statements |
| 31 | 705 | Modifications to opinion in the Independent auditors report |

Schedule

| Sr.No (1) | Auditing Standard No (2) | Name of Auditing Standard (3) |
|--------------|-----------------------------------|--|
| 32 | 706 | Emphasis of matter paragraphs and other matter paragraph in Independent auditors report |
| 33 | 710 | Comparative information - corresponding figures and comparative financial statements |
| 34 | 720 | The auditors responsibility in relation to other information in documents containing other audited financial statements |
| 35 | 800 | Audits of Financial statements prepared in accordance with special purpose framework |
| 36 | 805 | Special considerations - audit of single financial statements and specific elements accounts or items of a financial statement |
| 37 | 810 | Engagements to report on summary financial statements |

DEADLINES TO BE MET

| Rule No/Act | Details | Responsibility | Deadline |
|----------------|---|---------------------|--|
| R61 | Preparation of Annual statement of accounts | Society | 45 days from close of year – Before 15 th May |
| R69(1)(a)/(b) | Audit of accounts | Society | 4 th months from close of year – Before 31 st July |
| R69(3) | Submission of audit memorandum | Auditor | Along with audit report |
| R69(4)/S81 (2) | Audit to be carried out as per accounting standards | Auditor | |
| S 81(5B) | Submission of audit report to society | Auditor | Within 1 month from completion of audit and in any case before issuance of AGM notice |
| R73/S82 | Audit rectification report | Society/ Auditor | 3 months from date of audit report – Hard copy by society and online submission by auditor |



Thank You

