ACCOUNTING STANDARDS APPLICABLE TO CO-OPERATIVE SOCIETIES.

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As compared to other areas of our practice Audit of Co-operative societies has been the domain of few professional brothers. It has also received comparatively less attention in the wake of recent developments that has taken place in the field of auditing. The reason is obvious. To my mind the co-operative sector is largely regulated by the respective states and the regulators of this sector have shown less dynamism vis-à-vis the corporate and other sectors. Another reason that could be is the co-existence of co-operation departments own auditors and the members of ICAI. The members of ICAI are bound by the stipulations and guidance announced by the Institute. Where as the Departments auditors are not bound by such things as announced by our institute. There is definitely a gap between the conceptual understandings between both these auditors though the object of both of them is one and the same. We need not go into the details of it. But never the less the fact remains that, there appears to be less concern about actual following of accountings standards in a co-operative audit and if at all these are followed the extent of it.

Before we deal with accounting standards as such let us try and examine the issue of applicability of accounting standards to co-operative societies. For this we have to refer to the Preface to the statement of Accounting Standards. The exact wordings of the preface are ....

Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting, which are subject to the attest function of the members of the ICAI. Accounting Standards apply in respect of any enterprise (whether organised in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes. Accounting Standards will not, however, apply to enterprises only carrying on the activities which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise are considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature.

Thus it is amply clear that co-operative societies are not an exception to the applicability of accounting standards. As the financial statements prepared by co-operative societies are General Purpose Financial Statements. Why do we say so because the general purpose financial statements are...

The term ‘General Purpose Financial Statements’ includes balance sheet, statement of profit and loss, a cash flow statement (wherever applicable) and statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public.

The financial statements prepared by the co-operative society includes balance sheet, statement of profit and loss, statements and explanatory notes which form part of financial statements. Thus it is amply clear that Accounting Standards pronounced by ICAI are squarely applicable to the Co-operative societies.

Now the question arises that who is to ensure that Accounting Standards are followed in its proper spirit while making the financial statements?
Obviously it is the responsibility of the management of the society who has to ensure that relevant accounting standards are followed while recoding the transactions in the books of account of the society and the spirit is followed at the time of making the financial statements.

**What is our role as auditors?**

We at the time of expressing our opinion on the financial statements of the society have to see that the management has followed the relevant accounting standards applicable to the society. If in case such standards are not followed then a suitable expression should be included in the opinion expressed by the auditors. There is one more angle to this and that is regarding the audit report to be given by the auditor. You all will agree that the Institute in the year 2002 changed the body of the audit report to be given by the members while expressing their opinion. In the present text of the body of the audit report in paragraph number 2 which reads as . . .

*An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.*

When we state the above matter in to our expression of opinion it is presupposed that the accounting standards are taken in to consideration while assessing the financial statements. Thus it is crystal clear that we have to ensure that accounting standards are followed by the co-operative society.

In majority of the cases the auditor of the co-operative society is changed every year and it is every likely that the previous years audit many not have been conducted by the fellow member of the institute. In such situation it is all the more necessary for the auditor to see whether earlier years financial statements comply with the accounting standards before giving the audit report.

**Mandatory Accounting Standards**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Accounting Standard (AS) No.</th>
<th>Title of the Accounting Standard</th>
<th>Applicability to Level I Enterprises</th>
<th>Applicability to Level II Enterprises</th>
<th>Applicability to Level III Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AS-1</td>
<td>Disclosure of Accounting Policies</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>AS-2</td>
<td>Valuation of Inventories</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>AS-3</td>
<td>Cash Flow Statements</td>
<td>Yes</td>
<td>Not required, But encouraged</td>
<td>Not required, But encouraged</td>
</tr>
<tr>
<td>4</td>
<td>AS-4</td>
<td>Contingencies and Events occurring after the Balance Sheet Date</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>5</td>
<td>AS-5</td>
<td>Net Profit or Loss for the</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Document</td>
<td>Description</td>
<td>Yes/No</td>
<td>Yes/No</td>
<td>Yes/No</td>
</tr>
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<td>------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>6</td>
<td>AS-6</td>
<td>Depreciation Accounting</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>7</td>
<td>AS-7</td>
<td>Construction Contracts</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>8</td>
<td>AS-9</td>
<td>Revenue Recognition</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>8</td>
<td>AS-10</td>
<td>Accounting for Fixed Assets</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>10</td>
<td>AS-11</td>
<td>The Effects of Changes in Foreign Exchange Rates</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>11</td>
<td>AS-12</td>
<td>Accounting for Government Grants</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>12</td>
<td>AS-13</td>
<td>Accounting for Investments</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>12</td>
<td>AS-14</td>
<td>Accounting for Amalgamations</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>13</td>
<td>AS-15</td>
<td>Employee Benefits</td>
<td>Yes</td>
<td>Yes</td>
<td>(With Permitted deviation)</td>
</tr>
<tr>
<td>14</td>
<td>AS-16</td>
<td>Borrowing Costs</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>15</td>
<td>AS-17</td>
<td>Segment Reporting</td>
<td>Yes</td>
<td>N.A</td>
<td>N.A</td>
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<td>16</td>
<td>AS-18</td>
<td>Related Party Disclosures</td>
<td>Yes</td>
<td>N.A</td>
<td>N.A</td>
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<tr>
<td>17</td>
<td>AS-19</td>
<td>Leases</td>
<td>Yes</td>
<td>Yes</td>
<td>(Except paragraphs 22(c), (e) and (f); 25(a), (b) and (e); 37(a), (f) and (g); and 46(b), (d) and (e))</td>
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<td>18</td>
<td>AS-20</td>
<td>Earnings per Share</td>
<td>See Note 2</td>
<td>See Note 2</td>
<td>See Note 2</td>
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<tr>
<td>19</td>
<td>AS-21</td>
<td>Consolidated Financial Statements Financial Statements</td>
<td>See Note 1</td>
<td>See Note 1</td>
<td>See Note 1</td>
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<td></td>
<td></td>
<td>Accounting for Taxes on Income</td>
<td>Yes</td>
<td>Yes</td>
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<td>21</td>
<td>AS-23</td>
<td>Accounting for Investments in Associates in Consolidated Financial Statements</td>
<td>See Note 1</td>
<td>See Note 1</td>
<td>See Note 1</td>
</tr>
<tr>
<td>22</td>
<td>AS-24</td>
<td>Discontinuing Operations</td>
<td>Yes</td>
<td>N.A</td>
<td>N.A</td>
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<tr>
<td>23</td>
<td>AS – 25</td>
<td>Interim Financial Reporting</td>
<td>Yes</td>
<td>N.A.</td>
<td>N.A.</td>
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<td>24</td>
<td>AS-26</td>
<td>Intangible Assets</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>25</td>
<td>AS-27</td>
<td>Financial Reporting of Interests in Joint Ventures</td>
<td>See Note 1</td>
<td>See Note 1</td>
<td>See Note 1</td>
</tr>
<tr>
<td>26</td>
<td>AS-28</td>
<td>Impairment of Assets</td>
<td>Yes</td>
<td>Yes w.e.f.1.4.2006 with permitted deviation</td>
<td>Yes w.e.f.1.4.2008 with permitted deviation</td>
</tr>
<tr>
<td>27</td>
<td>AS-29</td>
<td>Provisions, Contingent Liabilities and Contingent Assets</td>
<td>Yes</td>
<td>Yes (Except Para 67)</td>
<td>Yes (Except Para 66 &amp; 67)</td>
</tr>
<tr>
<td>29</td>
<td>As-31</td>
<td>Financial Instruments Presentation</td>
<td>Recommendatory from 1-4-2009. Mandatory from 1-4-2011.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

**Notes:**

1. For the purpose of applicability of Accounting Standards, enterprises are classified into three categories, viz., Level I, Level II and Level III. Level II and Level III enterprises are considered as SMEs. The criteria for different levels are given below.

**Level I Enterprises**

Enterprises which fall in any one or more of the following categories, at any time during the accounting period, are classified as Level I enterprises:

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.
(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.

**Level II Enterprises**

Enterprises which are not Level I enterprises but fall in any one or more of the following categories are classified as Level II enterprises:

(i) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 40 lakhs but does not exceed Rs. 50 crore. Turnover does not include ‘other income’.

(ii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 1 crore but not in excess of Rs. 10 crore at any time during the accounting period.

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

**Level III Enterprises**

Enterprises which are not covered under Level I and Level II are considered as Level III enterprises.

The following may also be noted in respect of applicability of Accounting Standards to Small and Medium Sized Enterprises (SMEs):

(i) An enterprise, which does not disclose certain information pursuant to the exemptions/relaxations available to an SME, should disclose the fact.

(ii) Where an enterprise has previously qualified for any exemption/relaxation (being under Level II or Level III), but no longer qualifies for the relevant exemption/relaxation in the current
accounting period, the relevant standards/requirements become applicable from the current period. However, the corresponding previous period figures need not be disclosed.

(iii) Where an enterprise has been covered in Level I and subsequently, ceases to be so covered, the enterprise will not qualify for exemption/relaxation available to Level II enterprises, until the enterprise ceases to be covered in Level I for two consecutive years. Similar is the case in respect of an enterprise, which has been covered in Level I or Level II and subsequently, gets covered under Level III.

2. AS 20, Earnings Per Share, 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 1-4-2004, 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.
(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.
3. AS 21, AS 23 and AS 27 (relating to consolidated financial statements) are required to be complied with by an enterprise if the enterprise, pursuant to the requirements of a statute/regulator or voluntarily, prepares and presents consolidated financial statements. Thus we can say that Accounting Standards are applicable to the Co-operative Societies their recognition, measurement and disclosure criteria will depend on, the level to which the society belongs.

Following are some of the accounting standards along with some of the essential points that must be considered while conducting audit of a co-operative society.

**AS 1 Disclosure of Significant Accounting policies:**

- Attention to fundamental accounting assumptions Going concern, Consistency and Accrual should be very carefully exercised. Some of the areas where the accounting policy may not be there with a particular society careful disclosures are needed. The accounting method the society is following should be clearly ascertained. Special attention is required in case of Co-op Banks to whom NPA provisioning applies. How the issue of recognition of revenue is handled vis-à-vis RBI norms. Does the society recognises the interest on Fixed Deposits, Locker Rent, Commission exchange and brokerage as per the method of accounting usually you find most of the above items are accounted for as and when it is paid/received in spite of accrual system of accounting. No leave encashment is provided for. No retirement benefits are provided for.

  **Some of the gray areas...**

- Valuation of Inventory
- Valuation of Investments
- Treatment of retirement benefits
- Treatment of contingent liabilities.
- Fixed Assets
- Deferred Tax
- Intangible Assets such as computer software.
- Impairment of assets.
- Prior Period Items.

**Valuation of Inventories AS 2:**

Societies hit are

- Dairy societies.
- Sugar factories.
- Spinning mills
- Consumers’ societies.
• Agricultural process societies. etc
• Special attentions from the standard should be to:
  Cost of purchase, Cost of conversion, Other costs.

“Lower of the cost or net realisable value”
difficulty in arriving at such valuation for paucity of detailed accounting records
In most of the cases it is found the auditors find difficulty in application of FIFO or Weighted average method.

**Depreciation Accounting AS 6:**

True method of following Accounting Standard is to arrive at ascertaining Useful life and Depreciable amount. Experience is such that, in almost all the cases rates as per Income Tax Act are taken. Co-operative Act itself is silent on rates!
Charging depreciation for all purchase of fixed assets in first six months at full rate and subsequent purchases half rate is the practice usually found but the disclosure requirements state that following should be disclosed...

  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.

**Revenue Recognition AS 9**

• Clear cut statement on how the interest portion on Substandard, Doubtful and loss assets are recognised needs to be given wherever application of RBI norms are mandatory.
• In most of the other cases such as co-operative credit societies this issue is dealt by treating it income as and when earned a suitable comment is necessary in this case when interest as per AS9 is to be recognised on time proportion basis taking in to account outstanding balance and rate of interest.

**Accounting for Fixed Assets AS 10**

• 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.

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.

• Disclosure:
The following information should be disclosed in the financial statements:
(i) gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements;
(ii) expenditure incurred on account of fixed assets in the course of construction or acquisition; and
(iii) 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.

Accounting for Amalgamation AS 14:
This situation is more likely to happen in case of a multi state co-op bank as has been experienced in the recent past. Like Cosmos Bank and Annapurna Mahila Sahakari bank, Manasa Co-op Urban, Co-op bank of Ahmedabad, Unnati Co-op Vadodara. Multi state Co-op banks are level I category, hence it is more important for them to observe AS 14 carefully. Only important points to be kept in mind are . . .

(a) the pooling of interests method:
Under the pooling of interests method, the assets, liabilities and reserves of the transferor society are recorded by the transferee society at their existing carrying amounts (after making the adjustments required in paragraph 11).
Para 11 says . . .
If, at the time of the amalgamation, the transferor and the transferee societies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with Accounting Standard (AS) 5, ‘Prior Period and Extraordinary Items and Changes in Accounting Policies’

(b) the purchase method:
Under the purchase method, the transferee society accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor society on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor society.

In addition to above the reference to Merger order issued by the appropriate authority will also have to be referred to for stipulations given in the order and its impact on the treatment as suggested in the standard.

**Employee Benefits AS 15:**

Employee benefits are all forms of consideration given by an enterprise in exchange for service rendered by employees.

Post-employment benefits include:

- Retirement benefits – e.g., Gratuity and pension
- Other benefits – e.g. post-employment life insurance and post-employment medical care

Post-employment benefit plans are formal or informal arrangements under which an enterprise provides post-employment benefits for one or more employees

- Defined contribution plans are post-employment benefit plans under which an enterprise pays fixed contributions into a separate entity (a fund) and will have no obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods
- Defined benefit plans are post-employment benefit plans other than defined contribution plans.
- Section 71 of MCS Act 1960 permits societies to establish and run Employees Provident Fund.

<table>
<thead>
<tr>
<th>Defined Contribution Plans</th>
<th>Defined Benefit Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The enterprise's obligation is limited to the amount that it agrees to contribute to the fund.</td>
<td></td>
</tr>
<tr>
<td>• Thus, the amount of the post-employment benefits received by the employee = amount of contributions</td>
<td></td>
</tr>
<tr>
<td>• The enterprise's obligation is to provide the agreed benefits to current and former employees</td>
<td></td>
</tr>
</tbody>
</table>
paid by an enterprise (and also by the employee) + investment returns arising from the contributions

| • Actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee. | • Actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the enterprise. If actuarial or investment experience are worse than expected, the enterprise's obligation may be increased |

This means that every co-operative society we conduct audit of, we should ensure that employees’ benefits are provided for and that too as explained in AS 15. Very rarely such as some of the multistate co-op Banks and some sugar factories cognisance of AS 15 is very well taken. If the impact is material it is likely to vitiate the picture of the society and a suitable comment is required in the audit report.

**Segment Reporting AS 17:**

The question of segment reporting to my mind would come in to play with respect to multistate Co-op Banks, milk and milk product societies having bigger scale of operations such as Amul (Gujarat Cooperative Milk Marketing Federation Ltd.) where the issue of reporting as per primary and secondary segments needs to be looked into. Rest of the societies caters to local market.

**Accounting for Taxes on Incomes AS 22:**

Applicability of AS 22 to Tax Paying Societies was there ever since AS 22 became mandatory. Now with the introduction of 80 P (4) the co-operative banks also have been roped in as tax paying entities hence it is all the more necessary for us to see whether financial statements disclose the current tax and deferred tax provisions.

**Discontinuing Operations AS 24:**

The situation of discontinuing operations can arise in case of a Co-operative society such as Sugar Factory, Dairy or Co-operative Bank having operations geographically spread. Question of disposal or spin off appears remote in case of Co-operatives. Piecemeal disposal off could be possible, termination also is possible in case of a co-operative society. The necessary permissions and stipulations needs to be looked into. Deciding initial disclosure event needs to be identified on the basis of available documents, What is the point at which the discontinuing operations trigger?.
Tax Gains and losses on disposal of assets or liabilities how they are arrived at and tax expense be considered carefully. Subsequent changes in timing of cash flows needs to be reported in updated disclosures.

**Impairment of Assets AS 28:**

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.

**Recognition and Measurement:**

1. 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.

2. 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.

**Situations of Impairment losses in Co-operatives:**

- Plant or Machinery/ Equipments of Dairy or Sugar Factory.
- Buildings and others assets.
- 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.

**Some Issues**

- Rule 49 A as per the MCS Rules 1961 there appears to be a confusion in the meaning of appropriation as commonly understood and as interpreted by rules.
- Rule 49 A states Net Profit be arrived by deducting amongst other things the following amount . . .

1. Provision for Share capital redemption
2. Provision for Investment fluctuation fund. a suitable cognisance of the rules overriding be taken . Accordingly reporting of net profit and balance sheet true and fair view needs to be considered. At least a clear comment in notes will make the issue clear to the reader as not all the readers are conversant with Act and Rules.

**Recognition of Revenue**
• Co-operative Banks are governed by RBI and liable to follow the stipulations.
• Preface to the accounting Standard specifies that Accounting Standards by their very nature can not and do not override the local regulations which govern the preparation and presentation of financial statements. However ICAI will determine extent of disclosure to be made in financial statements and auditors report. Such disclosures may be by way of appropriate notes explaining the treatment of a particular item.
• Hence as per the prudential norms of classification and provisioning of advances the non-consideration of interest unrealised on Substandard, doubtful and loss assets be clarified in the notes to account vis-à-vis requirements of AS 9.
• Interest on overdue deposits its method of recognition and its impact of profit also must be explained by way of notes.
• Co-operative credit societies which are controlled by registrar of co-operation consider the interest on advances only on realisation, if this fact is noticed then accordingly the necessary comment in the notes becomes imperative.

Management of Societies is often found to be non dynamic.
• Many societies are miles away from the implementation of Accounting Standards.
• Does this mean that we need to qualify always? In fact the role of an auditor as a friend, philosopher and guide and be best practiced in these circumstances.

Method of Accounting to be followed.
• What does the MCS Act 1960 specifies?
• What happens in this situation when sect 145 of The Income Tax Act 1961 comes into play?
• Often it is seen that mixed method of accounting is followed.
• Hence the society can either follow cash or accrual but in either case the disclosure is imperative, if cash basis is followed the compliance with accounting standards and the requisite disclosures becomes imperative.

Friends an area which was hitherto not so rigorously following the accountings standards will now have to follow the same. With changing times the dynamism in the working and thinking style of co-operative sector will make it imperative for them to implement these standards and that day is not far. . .