

# Compendium of Guidance Notes

## Accounting

(As on April 1, 2016)



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
New Delhi

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## Foreword

Accounting has often been referred to as the language of business. Indeed it is a tool to record business transactions in a way that results of such may be understood by all interested users. Technological advancements have led to shrinking of global boundaries which in turn have led to business being conducted across the globe and not just within the borders of each country. This has led to complexity in business transactions leading to advancement in accounting methodologies for their recording. Accounting Standards have accordingly been formulated by the Institute of Chartered Accountants of India (ICAI) to bring comparability in financial statements not just across periods but also regions. At the same time, Guidance Notes have also been issued by the Council of the ICAI to reinforce the general principles laid down in the Accounting Standards as well as uniformity in accounting for areas where currently Standards are being formulated.

Guidance Notes on accounting aspects issued by the ICAI occupy an important position in the generally accepted accounting principles prevailing in India since these establish principles to be followed thereby promoting uniformity in accounting practices on the concerned subject. In fact, while discharging his attest function, a member of ICAI needs to examine whether in view of the recommendations contained in a Guidance Note relating to an accounting matter, a disclosure is necessary in his report.

It gives me immense pleasure to note that the Research Committee has decided to revise the Compendium with a view to bring in one place all the existing guidance notes on accounting aspects in effect as on April 1, 2016.

I wish to congratulate CA. Sanjiv K. Chaudhary, Chairman, Research Committee, CA. Debashis Mitra, Vice-Chairman, Research Committee and its other members for bringing this revised version of 'Compendium of Guidance Notes-Accounting'.

I trust that this revised edition of the Compendium will be of immense use to all the interested users.

New Delhi  
April 19, 2016

**CA. M. Devaraja Reddy**  
President

## Preface

In this age of information technology, business transactions are increasingly becoming intricate and complex. As a result, the challenges in accounting of such transactions are ever increasing. The Institute of Chartered Accountants of India (ICAI), being the premier accounting body in the country, is relentlessly working towards providing guidance on accounting for business transactions. In this context, the Guidance Notes on Accounting continue to occupy a pivotal position in the hierarchy of pronouncements issued by ICAI.

The ICAI, through its Research Committee, has continuously been striving to provide general guidance for recording and reporting complex accounting transactions in accordance with the accounting principles laid down in Accounting Standards. The Guidance Notes on accounting aspects are primarily of two types- general application of accounting principles laid down in the Accounting Standards or general guidance setting out principles to be applied on areas not covered by an Accounting Standard. This updated Compendium contains three new Guidance Notes on Accounting issued recently viz., Guidance Note on Accounting for Derivative Contracts, Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities and Guidance Note on Accounting for Depreciation in Companies in the context of Schedule II to the Companies Act, 2013. Apart from these, two other Guidance Notes which were revised subsequent to their issue and included in this Compendium viz., Guidance Note on Accounting for Oil and Gas Producing Activities (revised 2013) and Guidance Note on Accounting for Self-generated Certified Emissions Reductions (CERs) (revised 2015).

The Research Committee, besides formulating new Guidance Notes also reviews the existing Guidance Notes to consider their relevance in the changing legal and economic environment. With this in view, some Guidance Notes have been withdrawn in accordance with the decision of the Council, since it was felt that in view of the legislative changes they were either no longer relevant or the subject on which those were issued were subsequently covered in an Accounting Standard.

On the basis of the above, all the existing Guidance Notes on Accounting in force as on April 1, 2016 have been compiled in the form of this publication to facilitate the users by providing these very important pronouncements of the Council at one place. Currently there are 23 Guidance Notes on Accounting which are in force as on April 1, 2016. This publication by means of Appendices include a complete list of existing Guidance Notes on Accounting as well as those which have been withdrawn since the publication of the last Compendium in July 2012. Extract of the relevant announcement of the Council regarding status of various documents issued by ICAI to the extent these relate to Guidance Notes on accounting aspects is included in this updated Compendium along with a CD containing soft copy of all the existing Guidance Notes on Accounting.

I take this opportunity to acknowledge the efforts of all the persons, regulators and other bodies involved in the process of formulation of Guidance Notes at relevant times. I would like to place on record my thanks to CA. M. Devaraja Reddy, President, ICAI, CA. Nilesh S. Vikamsey, Vice-President, ICAI, CA. Debashis Mitra, Vice-Chairman, Research Committee as well as other members of the Committee and my colleagues in the Council for their invaluable suggestions. I would also like to place on record contributions made by CA. Deepali Garg, Secretary, Research Committee and other colleagues working with us in the initiatives of the Committee.

I firmly believe that this revised edition of the 'Compendium of Guidance Notes – Accounting' will prove to be of immense use to all concerned.

New Delhi  
April 19, 2016

**CA. Sanjiv K. Chaudhary**  
Chairman  
Research Committee

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## ANNOUNCEMENTS OF THE COUNCIL REGARDING STATUS OF GUIDANCE NOTES ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

### I. Clarification regarding Authority Attached to Documents Issued by the Institute<sup>1</sup> (Relevant Extracts)

1. The Institute has, from time to time, issued 'Guidance Notes' and 'Statements' on a number of matters. With the formation of the Accounting Standards Board and the Auditing Practices Committee<sup>2</sup>, 'Accounting Standards' and 'Statements on Standard Auditing Practices'<sup>3</sup> are also being issued.

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<sup>1</sup> Published in the December, 1985 issue of the 'The Chartered Accountant'.

<sup>2</sup> The Auditing Practices Committee of the Institute of Chartered Accountants of India was established in 1982 with, *inter alia*, the objectives of preparing the Statements on Standard Auditing Practices (SAPs), Guidance Notes on matters related to auditing, etc. At its 226th meeting held on July 2, 2002 at New Delhi, the Council of the Institute of Chartered Accountants of India approved the recommendations of the Auditing Practices Committee to strengthen the role being played by it in the growth and development of the profession of chartered accountancy in India. The Council also approved renaming of the Committee as, "Auditing and Assurance Standards Board" (AASB) with immediate effect to better reflect the activities being undertaken by the Committee. Apart from changes designed to strengthen the process for establishing auditing and assurance standards, such a move would bring about greater transparency in the working of the Auditing Practices Committee now known as the Auditing and Assurance Standards Board (AASB).

The Council also approved the renaming of the Statements on Standard Auditing Practices (SAPs) as, "Auditing and Assurance Standards" (AASs). The ICAI in 2007 issued the 'Revised Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services'. Pursuant to issuance of Revised Preface, the 'Auditing and Assurance Standards' (AAS) have been renamed as 'Engagement and Quality Control Standards'. The Engagement Standards comprise:

- Standards on Auditing (SAs) - To be applied in the audit of historical financial information.
- Standards on Review Engagements (SREs) – To be applied in the review of historical financial information.
- Standards on Assurance Engagements (SAEs) – To be applied in assurance engagements, other than audits and reviews of historical financial information.
- Standards on Related Services (SRSs) – To be applied to engagements involving application of agreed - upon procedures to information, compilation engagements, and other related services engagements, as may be specified by the ICAI.

<sup>3</sup> *ibid.*

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2. Members have sought guidance regarding the level of authority attached to the various documents issued by the Institute and the degree of compliance required in respect thereof. This note is being issued to provide this guidance.

...

5. 'Guidance Notes' are primarily designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature. A member should ordinarily follow recommendations in a guidance note relating to an auditing matter except where he is satisfied that in the circumstances of the case, it may not be necessary to do so. Similarly, while discharging his attest function, a member should examine whether the recommendations in a guidance note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary.

6. There are however a few guidance notes in case of which the Council has specifically stated that they should be considered as mandatory on members while discharging their attest function. A list of these guidance notes is given below:-

- (i) Guidance Note on Treatment of Interest on Deferred Payments read along with the pronouncement of the Council, published in 'The Chartered Accountant', March 1984.<sup>4</sup>

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<sup>4</sup> The nomenclature of this document was changed by the Council of the Institute at its 133rd meeting held in April, 1988. The new nomenclature was 'Statement on Treatment of Interest on Deferred Payments'. In view of para 8 of this 'Clarification', with Accounting Standard (AS) 10 on 'Accounting for Fixed Assets', becoming mandatory in respect of accounts for periods commencing on or after 1.4.1991, the 'Statement on Treatment of Interest on Deferred Payments' stands automatically withdrawn except in the case of certain specified non-corporate entities where it stands withdrawn in respect of accounts for periods commencing on or after 1.4.1993. It may be noted that pursuant to the issuance of Accounting Standard (AS) 16 on '*Borrowing Costs*', which came into effect in respect of accounting periods commencing on or after 1-4-2000, paragraph 9.2 and paragraph 20 (except the first sentence) of AS 10, relating to treatment of finance costs including interest, stand withdrawn from that date.

- (ii) Provision for Depreciation in respect of Extra or Multiple Shift Allowance, published in 'The Chartered Accountant', May 1984.<sup>5</sup>

...

## **II. Clarification on Status of Accounting Standards and Guidance Notes<sup>6</sup>**

In a situation where certain matters are covered both by an Accounting Standard and a Guidance Note, issued by the Institute of Chartered Accountants of India, the Guidance Note or the relevant portion thereof will be considered as superseded from the date of the relevant Accounting Standard coming into effect, unless otherwise specified in the Accounting Standard.

Similarly, in a situation where certain matters are covered by a recommendatory Accounting Standard and subsequently, an Accounting Standard is issued which also covers those matters, the recommendatory Accounting Standard or the relevant portion thereof will be considered as superseded from the date of the new Accounting Standard coming into effect, unless otherwise specified in the new Accounting Standard.

In a situation where certain matters are covered by a mandatory Accounting Standard and subsequently, an Accounting Standard is issued which also covers those matters, the earlier Accounting Standard or the relevant portion thereof will be considered as superseded from the date of the new Accounting Standard becoming mandatory, unless otherwise specified in the new Accounting Standard.

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<sup>5</sup> The nomenclature of this document was changed by the Council of the Institute at its 133rd meeting held in April, 1988. The new nomenclature was 'Statement on Provision for Depreciation in respect of Extra or Multiple Shift Allowance'. This statement has been withdrawn in respect of accounting periods commencing on or after 1.4.1989, as per the Guidance Note on Accounting for Depreciation in Companies, issued in pursuance of amendments in the Companies Act, 1956, through Companies (Amendment) Act, 1988.

<sup>6</sup> Published in 'The Chartered Accountant', April 2002 (page 1242).



**GN(A) 5 (Issued 1983)**

## **Guidance Note on Terms Used in Financial Statements**

### **Foreword**

This guidance note, 'Terms used in Financial Statements', fulfils a long-felt need for guidance to both preparers as well as users of financial statements regarding the general usage of various terms used therein.

In the present-day context, financial statements of an enterprise are intended to serve the information needs of a wide variety of interest groups, some of which may not possess the knowledge of accounting and its terminology. While such users may quite appreciate those terms which are used in the financial statements in their generic sense, many other words or phrases which have a special connotation in accounting may mean little or nothing to them. The problem is further accentuated by the fact that there is considerable divergence in the usage of various terms. Thus, it is obvious that for achieving effective communication through financial statements, the terms should be used therein consistently and uniformly to the extent possible so that they are understood by the users in the same sense in which they are used by the preparers. Recognising that adequate literature is not available on this subject, the Accounting Standards Board has formulated this guidance note.

I trust, the guidance note would go a long way in improving the quality of financial statements as well as their appreciation by the users.

New Delhi  
August 16, 1983

Ashok Kumbhat  
*President*