

ASSAM FINANCIAL CORPORATION

ACCOUNTING POLICIES

The accounting policies of the Corporation are based on the guidelines/notifications issued by the Small Industries Development Corporation (SIDBI), which is the apex body governing the SFCs and considering the following :

- **Income Tax Act, 1962** : Accounting policy followed by SFC takes into consideration the relevant provisions of the Income Tax Act, e.g., Section 145, Section 43D.
- **Accounting Standards/ Guidance notes issued by the Institute of Chartered Accountants of India (ICAI)** : The ICAI issues accounting standards/ guidance notes/ opinions, which together constitutes Generally Accepted Accounting Principles (GAAP). GAAP become applicable to the SFCs to the extent these are not contrary to anything contained in the SFC Act/ General Regulations
- **Industry Practices** : The accounting policies and practices
- **Relevant International Accounting Standards**

Key governing principles

The key governing principles that have been considered in developing accounting policies are;

- **True and fair** : The prime consideration in the selection of accounting policies is that the financial statements prepared on the basis of such policies should present a true and fair view of the state of affairs as at the Balance Sheet date and of the profit or loss for the period ended on that date.
- **Prudence/ Conservatism** : In view of the business environment in which SFCs operate, the accounting policies/ practices for the SFCs need to be based on the principles of prudence/ conservatism. Accordingly, all anticipated losses should be provided for but the anticipated gains should not be recognized unless realized.
- **Materiality** : Accounting policies are designed keeping in view the concept of materiality in value terms. Financial statements should disclose all “material” items i.e., items the knowledge of which might influence the decisions of the user of the financial statements.
- **Consistency** : It is assumed that the accounting policies are followed consistently. Any change in the accounting policy that has a material effect in the current period or which is reasonably expected to have a

material effect in later period should be disclosed with ascertainable financial implication.

- **Disclosure** : All significant accounting policies adopted in the preparation and presentation of the financial statements should be disclosed.

RECOVERY OF DUES – PRACTICES AND ACCOUNTING TREATMENT

The accounting policies/ treatment in respect of various recovery proceedings taken up by AFC covers the following :

- Reschedulement of loan
- One Time Settlement Scheme (OTSS)
- Recovery proceedings u/s 29 of the SFC Act
- Recovery proceedings u/s 31 of the SFC Act
- Action u/s 32G of the SFC Act

The above guidelines on accounting policies of recovery proceedings are based on the following :

- The recovery proceedings are undertaken by AFC in case of the Non Performing Assets (NPAs) since these relate to loanees who have defaulted in paying their dues on time – thereby AFC faces considerable risk in recovery of the part/ whole amount given as loans and advances in such cases.
- No interest pertaining to NPAs shall be accrued in the books of account of the AFC and the interest on such assets shall be accrued only in the memorandum accounts.
- No unrealized interest shall be accounted in the year in which recovery proceedings are under progress, as the income from these assets should be recognized on realized basis only.

ANNUAL ACCOUNTS

The Balance Sheet and Profit & Loss Account can either be in vertical or horizontal form. However, for the purpose of uniformity, the vertical method of presentation has been approved by the Board.

The accounting year followed for preparation of the Balance Sheet and the Profit & Loss Account should be the financial year (i.e. April 1 to March 31).

This is also in view of the fact that as per Section 3 of the Income Tax Act, 1961, as amended by the Direct Tax Laws (Amended) Act, 1987, all companies (SFC is a company under the Income Tax Act) are required to furnish a Statement of Affairs as at 31st March of each year to the assessing authorities.

Previous year's figures

Previous year's figures should be given for the purpose of comparison of current year's figures with that of previous year's.

The previous year's figures should be regrouped as per the groupings of the current year wherever essential to facilitate comparison of the annual accounts.

Adherence to accounting policies

The Balance Sheet and the Profit & Loss Account should be drawn in accordance with the recommended accounting policies.

Balance Sheet

Balance sheet is a statement of financial position as at a given date, which exhibits its assets, liabilities, capital reserves and other account balances at their respective values.

Order of presentation

The assets and liabilities should be presented on the basis of liquidity. The assets should be stated in the order of most liquid to least liquid and liabilities in the order of least liquid to most liquid. (The International Accounting Standards (IAS) 30 on "Disclosures in the Financial Statements of Banks & Similar Financial Institutions" provides that the assets and liabilities should be stated in the order of their relative liquidity).

Profit and Loss Account

Profit and Loss Account is a statement of all incomes earned and expenditure incurred during the accounting year.

The Profit and Loss Account ;

- Shall disclose the result of the working during the period covered by the account.
- Shall disclose every material feature, including credits or receipts and debits or expenses in respect of non-recurring transactions or transactions of an exceptional nature.

The Profit and Loss Account should set out various items relating to the income and expenditure arranged under the most convenient heads

Items requiring separate disclosure

Income or expenditure from extraordinary activities

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Corporation and, therefore, are not expected to recur frequently or regularly.

Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of the each extraordinary item should be disclosed separately in the statement of profit and loss in a manner that its impact on the current profit or loss can be perceived (Accounting Standard – 5, “Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies”). Any losses arising due to natural calamities such as floods, earthquakes, theft, fire, etc., are examples of extraordinary activities.

Prior period adjustments

Prior period items are incomes or expenses accounted for in current period as a result of errors (mathematical, wrong application of accounting policies, misinterpretation of facts or oversight) or omissions in the preparation of financial statements of prior periods.

The nature and amount of prior period items should be disclosed separately in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived (Accounting Standard – 5).

Profit and Loss Appropriation Account

Profit and Loss Appropriation Account represents the amount available for creation of reserves and distribution to shareholders after all the expenses and other statutory requirements have been met.

After making provision for dividend, transfer to statutory reserves, etc. the Balance profit should be transferred to general reserves. In case the net balance is a loss, it should be shown under asset side of the Balance Sheet.

The form of main Balance Sheet, Profit and Loss Account and Profit and Loss Appropriation Account are provided as Annexure.

Schedules forming part of Balance Sheet and Profit and Loss Account

The main Balance Sheet and Profit and Loss Account should be supported by grouping of various account heads. These groupings are referred to as schedules.

The reference of the relevant schedule should be provided against the relevant head/ group in the Balance Sheet and the Profit and Loss Account.

The schedules should contain heads of assets, liabilities, incomes and expenditures on the basis of common characteristics, representing the main grouping.

Thus only main heads should be presented on the face of annual accounts and the constituents shall be presented in the schedules.

The form of schedules to the Balance Sheet and Profit and Loss Account are provided as Annexure.

NOTES ON ACCOUNTS

The notes on accounts form part of the Balance Sheet and Profit and Loss Account and are annexed to these financial statements. The reference of the relevant schedule of the notes to accounts should be provided in the Balance Sheet.

Generally the notes to accounts contain disclosures/ additional information which support the financial position contained in the Balance Sheet and Profit and Loss Account. These notes enhance transparency in the information presented in the Balance Sheet and the Profit and Loss Account.

Notes on accounts cover the following :

- Significant accounting policies
- Change in Accounting Policy
- Disclosures required by SIDBI guidelines
- Prudential disclosures.

Significant Accounting Policies

As per the Accounting Standard -1 (AS – 1), on “Disclosure of Accounting Policies”, all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.

Change in Accounting Policy

Any change in an accounting policy, which has a material impact on the financial position of the AFC should be disclosed. The impact and adjustments resulting from such change, if material, should be shown in the financial statements of the period in which such change is made.

Where the effect of such change is not ascertainable, wholly or in part, the fact should be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the current periods, then such change should be appropriately disclosed in the period in which the change should be appropriately disclosed in the period in which the change is adopted (as per AS – 1).

The following should be disclosed in the Profit and Loss Account and the Balance Sheet (of the Corporation) :

- Any deviation from an accounting policy
- Reasons for such deviations
- Financial impact, if any, arising due to such deviation.

Disclosures required by SIDBI guidelines

RBI issues guidelines to All India Term Lending and Refinancing Institutions as regards the disclosures to be made in their published annual reports as a part of Notes to Accounts. Based on these RBI guidelines, SIDBI issues guidelines for all SFCs, to the extent applicable to them.

The relevant applicable disclosures required by SIDBI guidelines are as below:

- Classification of investments
- Valuation of Investments
- Disclosure on Capital, shareholding pattern, Asset quality & credit concentration, Credit exposure, Liquidity and maturity pattern of assets & liabilities and Operating results
- NPA classification of loans and advances and provisioning thereof
- No utilization of Special Reserve created under Section 36(1)(viii) of the Income Tax Act, 1961 for the purposes of NPA provisioning.

Prudential disclosures

Certain disclosures are required to be made as a matter of prudence to provide more information/ clarification to the various stakeholders e.g. disclosure relating to interest waivers/ rebates allowed/ interest unrealized in respect of NPAs/ sale of assets u/s 29 of the SFC Act, etc.

In addition to the above, disclosures are made in the notes to accounts by the auditors as a result of their audit exercise to clarify/ qualify and of their observations.

CONTINGENCIES / EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Contingencies or Events occurring after the Balance Sheet date may have a material impact on the financial position as depicted by the Balance Sheet at the close of the financial year.

The Institute of Chartered Accountants of India has in its Accounting Standard – 4 on “Contingencies and Events occurring after the Balance Sheet date” defined the aforesaid as under :

- A contingency is a condition or situation the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.
- Events occurring after the Balance Sheet date are those significant events both favourable and unfavourable that occur between the Balance Sheet date and the date on which the financial statements are approved by the Board of directors.

Contingencies

The amount of a contingent loss should be provided by way of charge in the statement of Profit and Loss if :

- It is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability has been occurred as at the Balance Sheet date, and
- A reasonable estimate of the amount of the resulting loss can be made.

The existence of a contingent loss should be disclosed in the financial statements if either of the conditions stated above is not met, unless the possibility of the loss is remote.

Contingent gains should not be recognized in the financial statements.

Events occurring after the Balance Sheet date

Assets and liabilities should be adjusted for events occurring after the Balance Sheet date that provide additional evidence to assist the estimation of amounts relating to the conditions existing at the Balance Sheet date or that indicate that the fundamental accounting assumption of going concern (i.e. the continuance of existence of the enterprise) is not appropriate, e.g. dividends stated to be in respect of the period covered by the financial statements which are proposed or declared by the enterprise after the Balance Sheet date but before approval of the financial statements.

In such case, disclosures should be made in the report of the Board of Directors of the Corporation of those events occurring after the Balance Sheet date that represents material changes and commitments affecting the financial position of the enterprise

Disclosure

The disclosure in respect of contingencies should include the following :

- Nature of contingency
- Uncertainties which may affect the future outcome
- An estimate of the financial effect, or a statement that such an estimate cannot be made.

If disclosure of events occurring after the Balance Sheet date in the report of the Board of Directors is required, the following information should be provided :

- Nature of event
- An estimate of the financial effect, or a statement that such an estimate cannot be made.