

Ministry of Company Affairs
NOTIFICATION

New Delhi, the 7th December, 2006

ACCOUNTING STANDARDS

G.S.R. 739 (E). – In exercise of the powers conferred by clause (a) of sub-section (1) of section 642 of the Companies Act, 1956 (1 of 1956), read with sub-section (3C) of section 211 and sub-section (1) of section 210A of the said Act, the Central Government, in consultation with National Advisory Committee on Accounting Standards, hereby makes the following rules, namely:-

1. **Short title and commencement.**- (1) These rules may be called the Companies (Accounting Standards) Rules, 2006.
 - (2) They shall come into force on the date of their publication in the Official Gazette.
2. **Definitions.**- In these rules, unless the context otherwise requires,-
 - (a) “Accounting Standards” means the Accounting Standards as specified in rule 3 of these rules;
 - (b) “Act” means the Companies Act, 1956 (1 of 1956);
 - (c) “Annexure” means an Annexure to these rules;
 - (d) “General Purpose Financial Statements” include balance sheet, statement of profit and loss, cash flow statement (wherever applicable), and other statements and explanatory notes which form part thereof.
 - (e) “Enterprise” means a company as defined in section 3 of the Companies Act, 1956.
 - (f) “Small and Medium Sized Company” (SMC) means, a company-
 - (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
 - (ii) which is not a bank, financial institution or an insurance company;

- (iii) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
- (iv) which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and
- (v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Explanation: For the purposes of clause (f), a company shall qualify as a Small and Medium Sized Company, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period.

(2) Words and expressions used herein and not defined in these rules but defined in the Act shall have the same meaning respectively assigned to them in the Act.

3. **Accounting Standards.-** (1) The Central Government hereby prescribes Accounting Standards 1 to 7 and 9 to 29 as recommended by the Institute of Chartered Accountants of India, which are specified in the Annexure to these rules.

(2) The Accounting Standards shall come into effect in respect of accounting periods commencing on or after the publication of these Accounting Standards.

4. **Obligation to comply with the Accounting Standards.-** (1) Every company and its auditor(s) shall comply with the Accounting Standards in the manner specified in Annexure to these rules.

(2) The Accounting Standards shall be applied in the preparation of General Purpose Financial Statements.

5. An existing company, which was previously not a Small and Medium Sized Company (SMC) and subsequently becomes an SMC, shall not be qualified for exemption or relaxation in respect of Accounting Standards available to an SMC until the company remains an SMC for two consecutive accounting periods.

[No. 1/3/2006/CL-V]

JITESH KHOSLA, Jt. Secy.

ANNEXURE
(See rule 3)
ACCOUNTING STANDARDS

A. General Instructions

1. SMCs shall follow the following instructions while complying with Accounting Standards under these rules:-

1.1 the SMC which does not disclose certain information pursuant to the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an SMC and has complied with the Accounting Standards insofar as they are applicable to an SMC on the following lines:

“The Company is a Small and Medium Sized Company (SMC) as defined in the General Instructions in respect of Accounting Standards notified under the Companies Act, 1956. Accordingly, the Company has complied with the Accounting Standards as applicable to a Small and Medium Sized Company.”

1.2 Where a company, being a SMC, has qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be an SMC. The fact that the company was an SMC in the previous period and it had availed of the exemptions or relaxations available to SMCs shall be disclosed in the notes to the financial statements.

1.3 If an SMC opts not to avail of the exemptions or relaxations available to an SMC in respect of any but not all of the Accounting Standards, it shall disclose the standard(s) in respect of which it has availed the exemption or relaxation.

1.4 If an SMC desires to disclose the information not required to be disclosed pursuant to the exemptions or relaxations available to the SMCs, it shall disclose that information in compliance with the relevant accounting standard.

- 1.5 The SMC may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard:

Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead any person or public.

2. Accounting Standards, which are prescribed, are intended to be in conformity with the provisions of applicable laws. However, if due to subsequent amendments in the law, a particular accounting standard is found to be not in conformity with such law, the provisions of the said law will prevail and the financial statements shall be prepared in conformity with such law.
3. Accounting Standards are intended to apply only to items which are material.
4. The accounting standards include paragraphs set in bold italic type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. An individual accounting standard shall be read in the context of the objective, if stated, in that accounting standard and in accordance with these General Instructions.

B. Accounting Standards