

ACCOUNTANCY TRAVELOGUE: EXPENSES PANORAMA

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In June 2008 Newsletter we walked through the '**ACCOUNTANCY TRAVELOGUE: EXPENSES**'. However the caption was wrongly published as 'Accountancy Travelogue: Gallery of AS-9'. I regret for the mistake.

In this "**Land of Spending**" i.e. accounting for Expenses, lot of ground is covered by **Part-II to Schedule-VI** of the **ACT**. Let's take a panoramic view of customs and conventions i.e. 'Recognition' and 'Disclosure' predominantly under this Part-II.

Basic Principles:

Part-II to the Schedule-VI duly recognises materiality concept not only in respect of operational expenditure, but even in respect of non-recurring and transactions of exceptional nature. Various items of expenditure shall be arranged under the most convenient heads, thus the company has sufficient freedom in disclosing items of Profit & Loss Account to suit its business and industry. While Part-I lays down the specific structure for disclosure of Balance Sheet, Part-II gives reasonable freedom to the company in presentation. Since a company has to follow accrual basis of accounting u/s 209 of the Act disclosure is in respect of payments as well as provisions made therefor.

General:

- a) Commission paid to selling agents.
- b) Brokerage and discount on sales (no need to disclose trade discount).
- c) Cost of Power and Fuel; Rent; Insurance.
- d) Repairs, by convention 'Repairs' includes maintenance also. The company to disclose separately, repairs to building, repairs to machinery and other repairs.
- e) Rates and taxes. However taxes on income need not be disclosed here.
- f) Contributions to Political Parties are in accordance with section 293A of the Act and to National Defence Academy in line with section 293B of the Act.

Human Resource/ Staff Cost:

Disclosure requirements of Human Resource cost are, (a) Salaries, wages and bonus, (b) Contribution to Provident and other funds, and (c) Workmen and staff welfare expenses. U/s 217(2A) of the Act read with Companies

(Particulars of Employees) Rules, 1975, the Directors Report shall give details of employees drawing remuneration exceeding Rs 2,00,000 per month (if employed for part of the year) or Rs 24,00,000 (for the whole year). It shall state whether any such employee is a Director or related to Directors.

Interest:

To disclose Interest on various borrowings viz., Interest on Debentures, Interest on Fixed Deposits, and Interest on Term Loans (i.e. fixed loans). They shall separately disclose interest to Managing Director. As per AS-18 the entity has to disclose separately payments to Related Parties.

Details of Material costs and Quantities:

Following are disclosure requirement in respect of cost of material. Interestingly they include not only financial disclosure, but even non-monetary disclosures like quantitative details. The disclosure may be in the Profit & Loss Account or Notes on Account.

- a) In case of manufacturing companies:
 - i) To disclose separately value of raw materials, components, intermediates, stores, spares and accessories consumed. Item-wise details of values and quantities consumed shall also be disclosed. If item-wise list is too large, items may be grouped suitably giving only values. However, disclose individually items costing more than 10%.
 - ii) To disclose separately values and quantities of opening and closing stocks of goods produced.
 - iii) Item-wise classification is to be given based on industrial licence held by the company for each product.
 - iv) Value of inventories of work-in-progress (or stock-in-process) at the beginning and end of the period.
- b) In case of Trading Companies - To disclose separately values and quantities of purchases, opening and closing stocks for each class of goods. Classification is to be given based on import licence granted by the Chief Controller of Imports and Exports.
- c) In case the company is carrying on multiple activities, i.e. manufacturing, trading activities or service

activities, it is sufficient to give values without giving quantities.

- d) Quantities are to be disclosed in the denominations in which they are generally purchased or sold in the market.
- e) Companies shall also disclose details of consumption of stores and spares.

Details of Expenditure in Foreign Currency:

A company is required to disclose the following information in the Profit & Loss Account or Notes on Account.

- a) Value of import of raw material, components, spare parts and capital goods. The value is expressed as Cost, Insurance and Freight (CIF).
- b) Value of imported material consumed viz. raw material, spare parts, and components. To disclose percentage of consumption of these materials vis-à-vis total consumption.
- c) Expenditure in foreign currency towards royalty, know-how, professional, consultation fees, interest etc.
- d) Details of dividends paid along with No. of shares and No. of non-resident shareholders.

Payment to Directors:

Convention of disclosure in respect of payments to Directors, including payments to Managing Director, is very elaborate under Part-II as well as payments to Related Parties under AS-18. Details in this regard shall be given not only in respect of payments by the company, but even by its subsidiary companies or other person. They may be given as part of the Profit & Loss Account or as Notes to Accounts.

- a) Managerial Remuneration u/s 198 of the Act;
- b) Remuneration within the limits specified in Schedule-XIII of the Act;
- c) Other Allowances and commission including guarantee commission;
- d) Value of Perquisites or benefits in cash or in kind;
- e) Pensions, gratuities, Payments from Provident Funds, Compensation for loss of office, consideration in connection with retirement from office;
- f) Details of payments of interest including interest on Debentures and Deposits;
- g) Commission paid also giving computation of profits

to arrive at the commission u/s 349 of the Act.

Payments to Auditor:

The Profit & Loss Account or Notes on Account shall contain payments made to auditors in respect of fees, expenses etc. Disclosure of payments to auditor towards (a) Audit; (b) As adviser or in any other capacity for Taxation matters, Company Law Matters, Management Services, for any other services rendered.

Taxes:

- a) Taxes on Income and Taxes on Profits
- b) Other taxes e.g. Fringe Benefit Tax, Tax on Distribution of dividend.

Miscellaneous Expenses:

Expenditure which cannot be classified under any head may be debited to Miscellaneous Expenditure. However expenses more than Rs 5,000 or 1% of total revenue, whichever is higher, cannot be classified under miscellaneous expenditure. Such expenditure, i.e. expenses more than 1% of total revenue or Rs 5,000, whichever is more, need to be classified separately. Hence expenses which are not material in character may be disclosed under Miscellaneous Expenditure.

Auditor's Responsibility:

Auditor while discharging his attest functions shall mainly be responsible for the following points.

- l The Profit & Loss Account and the Notes on Account disclose the requirements in accordance with Part-II to Schedule-VI of the Act and other provisions of the Act.
- l He shall ensure that disclosure also complies with Section 217(2A) of the Act and AS-18.
- l The auditor has to follow 'Guidance Note on Audit of Expenses':
 - o Occurrence - The expenditure was incurred by the entity and is for the relevant period;
 - o Completeness - All the expenditure was recorded;
 - o Measurement - The amount is accurate and allocated for the proper period;
 - o Presentation and Disclosure - It is in accordance with recognised accounting policies, practices and statutory requirements.
 - o The auditor has to verify the expenditure by examination of records and through analytical procedures.