

THE FOOD CORPORATION OF INDIA
HEAD QUARTERS : NEW DELHI

No. Accts /9(23)/90-92

DT : 13.4.92

CIRCULAR NO. 597/ACCTS.

Sub.: Adjustment relating to previous years Income/Expenditure

All the Accounting Units are required to furnish a schedule in respect of 'prior years items' alongwith annual accounts. A review of these schedules revealed that the instructions issued from time to time in this regard are not being complied with by the field offices and as a result prior period items are found at variance from region to region.

The prior period items are to be viewed with reference to the instructions contained in Accounting Standard – 5 published by the Institute of chartered Accountants. The following instructions are prescribed which may be strictly adhered to :-

1. "Prior period items" are material charges or credits which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more periods. It is therefore reiterated that only errors or omissions of earlier years may be routed through Adjustment relating to previous years Income/Expenditure.

The charges / credit arising on the outcome of a contingency, which at the time of occurrence could not be estimated accurately does not constitute an error but a change in estimates. Such an item is not treated as a prior period item. This has also been clarified in our Accounting policy No. 4.

Where an estimate has already been made in previous years account and there is a variation at the time of payment or receipt, the differential amount shall only be adjusted against the relevant account head of the current year and not against the previous year's account head.

ILLUSTRATION :

In certain case estimated liability towards HTC was Rs. 2,90,000.00 on the basis of the bills received :-

- (a) The amount payable was Rs. 4,50,000/-
- (b) The amount payable was Rs. 1,50,000/-

The following accounting adjustments may be carried out :-

- (a) A/c. Head
5.120C Rs. 2,90,000.00 Dr.
38.000 Rs. 1,60,000.00 Dr.

To Bank Account Rs. 4,50,000.00 Cr.
(Being the differential amount adjusted against the relevant account head).

b. 5.120 C Rs. 2,90,000.00 Dr.
To Bank Account Rs. 1,50,000.00
To HTC A/c (38.000) Rs. 1,40,000.00
(Being the differential amount adjusted against the relevant account head).

2. "Adjustment relating to previous years" Account shall be operated for items of Income/Expenses for each claim/bill other than interest on banking transactions pertaining to previous years above Rs. 1,00,000/-
3. The limit of Rs. 1 lakh shall however, not apply in case of the balance amount of railway claims on account of missing wagons / liabilities for un-connected wagons remaining in the books after linking of the missing and unconnected wagons.
4. That in case a decision is taken/sanction received (e.g. arrears of procurement incidentals settlement of third party claims/counter claims like STC/SCI, etc.) in the current year, though the same may relate to the earlier years, are to be accounted for in the current year's accounts only, provided such decision/sanction relating to the previous year was made after the date of approval of the Balance Sheet by the Board of Directors. In other words, as per the Accounting standard 4, following actions need to be taken:-
 - (a) Decision involving substantial effect on the previous year's account if taken after the Balance sheet date but before the approval of balance sheet by the Board of Directors, necessary adjustment entries/provision should be made in the accounts.
 - (b) If the above decision is taken after the Balance sheet was approved, effect has to be given in the current years accounts only.

Further clarifications are given below :-

Events which occur between the Balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustments to assets and liabilities as at the Balance sheet date or may require disclosure.

Adjustments to assets and liabilities are required for significant events occurring after the Balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance sheet date. For example an adjustment may be made for loss on a trade receivable account which is confirmed by the insolvency of a customer which occurred after the Balance sheet date.

Adjustments to assets and liabilities are not appropriate for events occurring after the Balance sheet date, if such events do not relate conditions existing at the Balance sheet date. An example is the decline in market value of investments between the Balance sheet date and the date on which the financial statements are approved. Ordinary

fluctuations in market values do not normally relate to the conditions of the investments at the Balance sheet date, but reflect circumstances which have occurred in the following period. However, disclosure is generally made of events in subsequent periods that represent unusual changes affecting the existence or substratum of the enterprise at the Balance sheet date ; for example, the destruction of a major production plant by a fire after the Balance sheet date.

The amount of a contingent loss should be provided for by a charge in the statement of profit and loss if :-

- (a) It is probable at the date of the financial statements events subsequent there to will confirm that (after taking into account any related probable recovery) an asset has been impaired or a liability has been incurred as at that date, and
 - (b) 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 in paragraph a & b above is not met, unless the possibility of a loss is remote.
5. The schedules should be drawn in the proforma prescribed vide form No. XIII/43, XIII/44 and XIII/45 of Accounts Manual.

Receipt may please be acknowledged.

SD/-
(T.K. SETH)
MANAGER (ACCTS.)