

Accounting policy analysis

Business



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Document discusses few recent changes in accounting policy, reasons shared by company and real intentions behind the curtain. | Contents Impact analysis of changes in accounting policy2 Suzlon returns to profits, with help from accounting policy2 Impact due to change2 What company says2 Reliance Communications dubbed “ poster child of everything wrong with Corporate India” 2 Accounting Standards subverted: 3 Indosolar Limited3 Change in treatment of miscellaneous expenditure3 Impact of change3 Impact analysis of changes in accounting policy Suzlon returns to profits, with help from accounting policy <http://www.hehindubusinessline.com/companies/suzlon-returns-to-profits-with-help-from-accounting-policy/article2026727>. ece Impact due to change higher profits as a result of a decision not to align accounting policies of its foreign subsidiary REpower with itself What company says : based on a detailed evaluation of the contracts of Suzlon and REpower has concluded that the nature and level of customisation of the contracts of Suzlon and REpower are different and hence non-alignment of the revenue recognition policy of REpower to that of Suzlon would result in a more appropriate presentation of the financial statements.

Due to this change the revenue and the net profit after tax is higher by Rs 974. 97 crore and Rs 109. 57 crore respectively. Reliance Communications dubbed “ poster child of everything wrong with Corporate India” [http://www.moneylife.](http://www.moneylife.in/article/reliance-communications-dubbed-poster-child-of-everything-wrong-with-corporate-india/18258.html)

[in/article/reliance-communications-dubbed-poster-child-of-everything-wrong-with-corporate-india/18258.html](http://www.moneylife.in/article/reliance-communications-dubbed-poster-child-of-everything-wrong-with-corporate-india/18258.html) One of the key discoveries of Veritas is that between the time RCom was demerged from RIL on 31 August 005 and listed <https://assignbuster.com/accounting-policy-analysis/>

on 6 March 2006, “ the ownership of promoters ballooned from 38. 27% to 63% in RCom, under the guise of improving shareholder value and transparency. the much discussed Ambani split is a charade to deflect attention from a well thought-out plan to split family wealth via formation of similarly named companies, emboldened through strategically timed share allotments within those companies, confusing nomenclature and repeated name changes to enrich insiders at the expense of public shareholders.

Veritas estimates that during the formation of RCom, RIL shareholders invested Rs13, 675 crore into the business, compared to a paltry Rs186 crore by the management, but after listing on the BSE, the shareholding of minority RIL shareholders declined to 37% from 61. 73%. According to Veritas, for the 821. 48 million shares issued to management at the formation of RCom, RIL shareholders suffered a loss of Rs25, 204 crore based on the March 06, 2006, RCom closing price of approximately Rs307. R Com’s profit has been inflated: “ We believe that on a cumulative basis from FY07-FY10, the Company has inflated its normalized profit before tax (“ PBT”) in the core telecommunication business by Rs 10, 944 crore (US\$ 2, 408M).

Accounting Standards subverted: ... RIL and RCom have used Indian Accounting Standards and associated disclosures, the Court System, the Companies Act and various other mechanisms to enrich insiders at the expense of institutional money managers, minority shareholders and foreign institutional investors. We believe investors in RIL should be aware of management’s hubris. Subsequently, via various accounting maneuvers, Reliance has inflated its EBITDA, EPS and book equity. Moreover, year-on-year comparability in most instances is compromised on account of

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whimsical accounting policy changes, use of “ cookie jar accounting” to circumvent the P&L impact of cash expenses via creative use of unreliable non-cash general reserves, understatement of cash interest expenses via intermingling non-cash foreign exchange gains and losses in some years and excluding those in others, and changing depreciation policies enabling a one-time boost to earnings, etc. Indosolar Limited Change in treatment of miscellaneous expenditure Miscellaneous expenditure until 31st March 2010, the Company had an accounting policy to amortise share issue expenses over a period of 5 years. The share issue expenses amounting to Rs.

308, 863, 060 incurred during the year and the balance of Rs. 26, 960, 927 remaining unamortised as at 31st March 2010, has now been adjusted against the Securities Premium Account as permitted under Section 78 of the Companies Act, 1956, on account of a change in the accounting policy in the year ended 31st March 2011. Impact of change Had the Company continued to follow the same accounting policy, the miscellaneous expenditure written off and the net loss would have been higher by Rs. 34, 778, 485 for the year ended and miscellaneous expenditure would have been higher by Rs. 301, 045, 502 as at 31st March 2011.