Adherence of AS-16 Borrowing Costs by Non-Corporate Entities; A Descendant Note

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Abstract

All organisations whether profit oriented or not need funds either borrowed or owned for investing in its operating assets on a regular basis. Borrowed funds attracts the periodical interest payments and also includes other costs like discounts, finance charges, ancillary costs etc. Proper accounting of such borrowing cost is equally applicable both for the corporate and non-corporate entities in order to report true and fair state of affairs of the business. In this regard, the Accounting Standard – 16 "Borrowing Costs" specifies the criteria for Recognition and Measurement, Presentation and Disclosure of borrowing costs incurred by an entity on its qualifying assets. How far this Accounting Standard is adhered, particularly by the non-corporate entities is a million-dollar question. The present study intends to analyse the treatment of borrowing costs incurred by the non-corporate entities on the qualifying assets. For a deeper analysis of the issue, an enquiry on 30 non-corporate entities was made and analysed the results thereof. The study revealed some interesting facts regarding the issue. Non adherence of AS - 16 among non-corporate entities is evident from the study.

Key words: Borrowing costs, Qualifying Assets, Non-qualifying assets, Substantial period of time.

Introduction

Organisations borrow funds to acquire, build and install fixed assets and other assets. Certain capital assets like building, plants etc., and inventories like brewery products may take substantial gestation time to get it ready for its intended use or sale, during which the firm has to pay interest expenses. The "substantial period" of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. The assets which take a substantial period of time for its construction to get it ready for its intended use or sale is called qualifying assets and otherwise non-qualifying assets. Accounting Standard (AS – 16) "Borrowing Costs" permits such borrowing costs which are directly attributable to the acquisition, construction or production of

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qualifying assets for their capitalisation and otherwise should be expensed and charged to the statement of profit and loss for the period in which it is incurred. How far the non-corporate entities are adhering this standard and if there is non-adherence of the same and the reasons for the non-adherence need to be explored empirically. Hence, a detailed review regarding the studies on AS, Ind. AS, IAS, IFRS and various GAAPs were made to assess the present position.

Rationale of the study

AS or Ind AS - Which is Better?

Borrowing access to external funds and the circumstances under which this borrowing occurs are critical drivers of a firm's business prospects. This is especially true for small businesses, which have few options for obtaining external capital other than borrowing (Sakai et al., 2010). However, it is pretty apparent that the accessibility and parameters of credit are highly dependent on the age of the company (Petersen & Rajan, 1995). It is need of a prerequisite that there should be a steadfast guideline on how entities value the borrowing costs and Accounting Standard (AS - 16) was one among the guidelines, which lead to the question of "Which to follow", whether it's AS, Ind AS or IFRS. In this regard, (Tawiah Konadu Vincent & Benjamin Muhaheranwa, 2015) conducted a study with the objective of measuring the accounting information quality between AS and Ind. AS (converged IFRS) by using Gray's Index of Conservatism (GIC) on 5 years consolidated financial statements. They found that IFRS provides current and quality information on liquidity ratios than AS reporting though there was a mix results on the quality of accounting information on leverage aspects. In overall, all the profitability ratios of GIC shows that the computed ratios of AS are higher than IFRS ratios in both the group companies; inferring that IFRS is conservative and prudent in profitability reporting. Hence, accounting information on profitability ratio as per IFRS is bearing high quality than AS ratios. They therefore concluded that Ind AS will provide current and quality accounting information on accounting ratios but the quality level will not be same over the years. On the other hand, Achalapathi & BhanuSireesha (2015) have conducted an extension with the main purpose of identifying statistically significant differences between the Indian GAAP and IFRS based financial statements of companies in terms of financial statement items through the calculated financial ratios. Their examination was built on the sample of 10 Indian companies that have voluntarily adopted IFRS reporting. Financial statements prepared as per Indian GAAP and IFRS were taken for a period of 6 years. Financial ratios under the categories like stability, liquidity, profitability and investment valuation were analyzed using the Gray comparability index to analyze the relative effect. The Wilcoxon's signed ranks test, paired sample t-test, F-test and linear regressions were used for testing the statistical significance. The study inferred that there was a significant difference between Indian GAAP based and IFRS based financial ratios. The study also showed that IFRS adoption has led to a statistically significant increase in liquidity, profitability and valuation ratios. In contention to this, Sunder (2002) examined regulatory competition as a model for writing and implementing corporate financial standards.

Linkages between Corporate Debt & Sovereign Debt

In emerging economies, access to international financial markets is critical for capital accumulation and growth. The relationship between sovereign debt and the terms of business access to international debt markets is a hot topic in policy circles, but it has gotten little attention in academic circles (Aca & Celasun, 2012). What effect would a rising amount of sovereign debt—a government entity's overseas borrowing—have on the price of business borrowing from foreign lenders? First, growing government borrowing abroad is likely to prompt a re-evaluation of country risk. For a given adverse economic shock, countries with larger public debt are more likely to experience a sovereign debt crisis, and sovereign debt crises are known to spread across the economy and weaken private creditworthiness. For example, sovereign defaults have been demonstrated to limit access to foreign funding for the private sector (Arteta & Hale, 2008; Kohlscheen & O'connell, 2008); diminish international trade and cut domestic private credit, raising the likelihood of a banking crisis (Sandleris, 2008).

Accounting Standards & Corporate Entities

Ali et al., (2012) empirically examined the level of compliance with 14 national Accounting Standards (Income Computation and Disclosure Standards) and its disclosure requirements for a large sample of companies in South Asia's three major countries, namely India, Pakistan, and Bangladesh, and evaluated the corporate attributes that influence the degree of compliance with these standards. Compliance levels are found to be positively associated to corporate size, profitability, and multinational status, but unrelated to leverage and external auditor quality.

Liapis & Thalassinos, (2013) showed a comparison of the International Financial Reporting Standards (IFRS) and other reporting standards for the accounting and reporting of "employee perks." The empirical study is conducted in line with the Greek Generally Accepted Accounting Principles (GGAAP), IFRS (after the establishment of International Accounting Standard (IAS) 19 "Employee Benefits"), and USFAS 87.

On the other side of the coin, Walker, (2010) as critic claimed that International accounting standards designed for stock market based capitalism may not be optimal for other forms of capitalism, and since stock market capitalism has lost credibility as a business model, the world may be better served by encouraging alternative forms of capitalism to develop with accounting standards tailored to their needs.

From the literature review made, it is evident that even though there are numerous studies on accounting policies, disclosures, employee perk, national and international accounting standards, GAAPs etc., there is a steadfast research vacuum in the application of or a specific study that has been made to analyze impact of application of accounting standards on non-corporate entities, especially regarding the borrowing costs and its treatment. Therefore, the present article fills this void by specifically evaluating the application of AS - 16 Borrowings Costs on non-corporate entities.

Theoretical Underpinnings

Borrowing costs are interest and other costs incurred in relation to borrowing of funds. It includes interest and commitment charges, amortization of discounts or premiums, amortization of ancillary costs, finance charges under Finance Lease and also exchange difference arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Borrowing costs incurred by an organization on its qualifying assets during its construction period/make over period (substantial period of time) can be capitalized, if it satisfies the assets recognition criteria. Other borrowing costs incurred should be expensed in the period in which it is incurred. Borrowing costs incurred during the extended period in which active development is interrupted due to abnormal reasons should be suspended and charged to statement of profit and loss. Where, a temporary delay is the normal part of its construction, the actual borrowing costs incurred during that period can be capitalized. Moreover, the capitalization process should cease when the assets under construction reaches the stage of its intended use or sale.

Improper accounting of borrowing costs will lead to reporting of deflated or inflated operating results and also under or over valuation of assets. For proper accounting of borrowing costs, the provisions of AS – 16 should be adhered strictly. The present study intends to analyze the practices of non-corporate entities operating at Kollam district regarding the borrowing costs incurred by them on their qualifying assets during the construction period and thereby the accuracy or inaccuracy of financial reporting.

Non-corporate entities are entities other than the corporate entities and include Sole Proprietorship firms, Partnership firms, HUF, Trusts, societies registered under Societies Registration Act and Association of Persons. Accounting Standards are applicable not only to limited companies but also to partnership firms and proprietorships(Rawat, 2019)

Objectives

To identify the treatment of borrowing costs by non-corporate entities;

To identify the reasons of non-adherence of AS - 16 if any; and

To suggest probable solutions to overcome the non-adherence practices.

Need and Significance of the Study

Apart from the corporate sector, the non-corporate entities are also contributing significantly towards the GDP of the nation. These entities are also providers of large volume of employment opportunities. Continuous and sustained growth of this sector can be ensured only through proper accounting practices; otherwise, the operating results as well as financial position may not show the true realities.

Accounting perfection and consistency can be achieved only through the strict adherence of accounting standards. In this respect the study intends to enquire the practices of non-corporate entities regarding the recognition, presentation and disclosure of its borrowing costs incurred on qualifying assets.

Methodology

The present study is both descriptive and diagnostic in nature. The study tries to describe the present practices of non-corporate entities regarding the treatment of borrowing costs incurred on the qualifying assets. As per ICAI notification, entities are classified into Level I, Level II and Level III. For the purpose the present study Level II & Level III entities are only considered on the assumption that the Level I entities comply with accounting standards as their turnover exceeds 50 crores and they are bound to comply taxation and other government rules strictly. Further the study diagnoses the reasons of non-adherence of AS – 16 “Borrowing Costs”, if any among the selected non-corporate entities. The study makes use of both primary as well as secondary data for its analysis. Primary data was collected through interview schedule from the accountants of selected non-corporate entities operating in Kollam District. Purposive sampling was employed for its administration to ensure that the selected firms are having borrowing costs and also qualifying assets. For descriptive analysis, the statistical tools like Percentages, Mean and Standard Deviations were applied. To test the hypothesis, Kruskal Wallis H Test followed by a post-hoc analysis was done.

Results and Discussions

Profile of the Sample

The sample respondents of the study constitute 30 working accountants selected purposively from the Non-Corporate entities which are having qualifying assets financed by borrowed funds, from the Kollam district of Kerala state. The respondents, i.e. the accountants of selected non-corporate entities differ in many respects like their level of education, graduation specialisation in commerce or non-commerce stream, period of graduation, number of years of experience as an accountant, and types of training received, etc. The Profile of the sample selected are depicted in Table 1

Table 1

Profile of the Respondents

Factors		Frequency	Per cent
	Graduate	7	23.3
Education qualification	Post-Graduate	13	43.3
	Graduate-professional	10	33.4
	Commerce	23	76.7
Specialization in Graduation	Other than Commerce	7	23.3
	Before 1993	7	23.3
	After 1993	23	76.7
Period of Graduation	0-5 years	6	20.0
	6-10 years	17	56.7
	11-15 years	1	3.3
Number of years of experience	16-20 years	2	6.7
	21-25 years	4	13.3
	Articleship	6	20.0
Type of training programme received	Internship	5	16.7
	Nothing	19	63.3

Source: Sample Survey

The Sampled respondents have been categorised into various groups based on their educational qualification, Specialisation of study at graduate level, Period of graduation, number of years of experience as an accountant and also the type of training programmes undergone as stated above.

To discharge the duties of an accountant effectively in the modern competitive business environment, up-to-date accounting knowledge is essential. In this regard the provisions of Accounting Standards can be used as a guideline for performing the duties of an accountant. The applications of provisions of Accounting Standards need strong conceptual understanding and its interpretation, which in fact is a product of level of educational background of the accountant. The educational background of the accountants will have a great bearing on the application of provisions of accounting standards. Hence, the educational qualifications of the respondents have been studied and the results of the same are depicted in Table 1. The data show that, of the 30 respondents, 23.3 percent are graduates, 43.3 percent are Post Graduates, and the remaining 33.3 percent are Graduates-professionals. This will help to study whether the education qualification of the respondents will have a bearing or not on the applications of provisions of AS – 16.

Likewise, the accountants of commerce graduation are expected to have more awareness about Accounting Standards and hence, the area of specialisation of education of the respondents is also assessed and it is clear from Table 1 that 76.7 percent of accountants are from Commerce education background but the remaining 23.3 percentage of accountants are not from the Commerce background.

In India, the Accounting Standards are mandatorily applicable from 1st April, 1993 (AS – 1 Disclosure of Accounting policies). Naturally, unless there is a continuing education practice, the working accountants who have completed their education on or before 1st April, 1993 may not be able to get a complete knowledge on the applications of Accounting Standards. Hence, the period of education of the accountants may also have a direct impact on the applications of provisions of accounting standards. It is evident from Table 1 that 23.3 percent of accountants were completed their education before 1993 and 76.7 percent of respondents were graduated only after 1993.

Every human endeavour is subject to purification based on their experience and the same is equally applicable in the case of accountants also. Through continuous practice, the accountants will be able to improve their working knowledge. Hence, the number of years of experience of accountants can improve their knowledge on accounting standards and its application. Table 1 show that 20 percent of accountants are having an experience up to 5 years, 56.7 percent are having an experience of 6 to 10 years, 3.3 percent are having 11 to 15 years of experience, 6.7 percent are having 16 to 20 years of experience and another 13.3 percent are having 21 to 25 years of experience.

Various types of training programmes such as articleship, internship etc. gained by the accountants will also have a direct impact in the matter of discharge of performance obligations of the accountants. Hence, the training programmes undergone by the accountants had also been taken into consideration. Table 1 shows that 20 percent of accountants gained articlehip training as part of their education programme, 16.7 percent of accountants gained internship training and 63.3 percent had received no training programmes during their education.

Profile of Entities

In addition to the above-mentioned profile of accountants, the presence of borrowed funds for the acquisition of qualifying assets and borrowing cost thereof are also assessed under entity wise profile. The results regarding the profile of Non-Corporate Entities tare depicted in Table 2.

Table 2

Profile of the Non-Corporate Entities

Factors		Frequency	Per cent
Accounts Audited by	CA	13	43.3
	Not a CA	17	56.7
	Total	30	100
Types of qualifying assets	Building	24	80
	Plant	3	10
	Others	3	10
	Total	30	100
Funding agency	SBI	9	30.0
	SBT	6	20.0
	SIB	6	20.0
	Federal Bank	5	16.7
	Canara Bank	3	10.0
	Central Bank	1	3.3
	Total	30	100
Loan amount	10 Lakh- 20 Lakh	4	13.3
	20 Lakh- 40 Lakh	1	3.3
	40 Lakh -60 Lakh	1	3.3
	60 Lakh - 80 Lakh	2	6.7
	80 Lakh - 1 Cr	1	3.3
	Above 1 Cr	21	70
	Total	30	100
Rate of interest	5%-10%	11	36.7
	10%-15%	19	63.3
	Total	30	100
Time taken for construction of qualifying assets in months	3-6	3	10.0
	6-9	11	36.7
	9-12	16	53.3
	Total	30	100

Source: Sample Survey

A total of 30 non-corporate entities having qualifying assets funded by specific and general borrowings for its construction have been selected for the study. From among, the books of accounts of 43.3 percent are get audited by professionally qualified Chartered Accountants and the financial statements of remaining 56.7 percent are either not audited at all or even audited by a person other than a professionally qualified Chartered Accountant.

Types of qualifying assets also have a strong bearing in the applications of provisions of AS – 16 "Borrowing Costs". A total of 80 percent of qualifying assets comprises Buildings and another 10 percent belongs to Plants and the remaining 10 percent put under residual category.

As regards funding, all agencies are scheduled commercial banks from where the borrowings were made for financing the qualifying assets. Altogether 50 percent of the borrowings were made from SBI and its associates and the balance 50 percent is shared by SIB 20 percent, Federal Bank 16.7 percent, Canara Bank 10 percent and finally 3.3 percent from Central Bank.

Borrowed funds and the treatment of resultant borrowing costs are having a direct nexus in the matter of financial reporting in the sense that the wrong recognition and measurement of expenditure will falsify the reported operating results and financial position of the entity. Here, the amount of borrowing ranges from 10 lakhs and goes above 1 crore. A total of 70 percent of entities borrowed more than 1 crore, 13.3 percent of entities borrowed in between 10 lakhs and 20 lakhs, and the remaining 16.7 percent entities borrowed in between 20 lakhs and 1 crore.

As regards the rate of interest, it ranges in between 5 to 15 percent per annum. Out of total entities, the rate of interest of 36.7 percent of entities demands an interest of 5 to 10 percent per annum. Remaining 63.3 percent of entities had to pay an interest of 10 to 15 percent per annum for their borrowings.

Finally, the time taken for the construction of qualifying assets in terms of months has taken into consideration. The construction period varies from 3 months to 12 months depending up on the nature and complexities of qualifying assets. Ten percent of entities had taken 3 to 6 months for the construction of its qualifying assets. Another 36.7 percent entities had taken 6 to 9 months period of time for its construction of qualifying assets and 53.3 percent entities had taken 9 to 12 months.

Treatment of Borrowing Cost

The very purpose behind this enquiry is to analyse how the borrowing costs incurred on qualifying asset is treated by the Non-Corporate Entities. Whether the borrowing cost on qualifying asset is get capitalised or it is charged to revenue of the corresponding period is enquired with the accountants and the result of the same is depicted in table 3

Table 3

Treatment of Borrowing Costs by Non-Corporate Entities

Factors	Statements	Frequency	Per cent
Treatment of Borrowing costs	Capitalized	10	33.3
	Charged to Revenue of the period as an expense	20	66.7
	Total	30	100

Source: Sample Survey

It is evident from the table that only 33.3 percent of the entities are capitalising the same and the balance 66.7 percent entities are charging the borrowing cost to the statement of profit and loss. Then, another question arises towards the entities who were capitalised the borrowing costs, whether the capitalisation process ceased on the completion of the qualifying asset? Hence, the results of the same are depicted in Table 4.

Table 4

Capitalisation Process Ceased on Completion of Qualifying Asset or Not

	Type of entity	Statement	Frequency	Per cent
Whether the Capitalization process ceased on completion of qualifying assets	Entities who capitalized the borrowing cost	Yes	10	33.3
	Entities who charged the borrowing cost to revenue	Not applicable	20	66.7
	Total		30	100

Source: Sample Survey

From among the total respondents, the same 33.3 percent entities that actually capitalised the borrowing costs were ceased the capitalisation process as soon as the qualifying asset is completed and become ready for its intended use or sale. Same 66.7 percent entities that were charged the borrowing costs against the revenue are not concerned with the cessation of capitalisation process.

Reasons of non-capitalisation

The Reasons for Non-Capitalisation can be on many issues/grounds such as difficulty of the accountants to discriminate as between qualifying and non-qualifying assets, difficulty to correlate the specific and general borrowings towards the qualifying assets, difficulty to identify the starting point of capitalisation process, difficulty to identify the delay due to abnormal reasons for suspending the capitalisation process, difficulty to identify the cessation point of capitalisation process and finally the lack of technical knowledge in relation to presentation and disclosure provisions of AS – 16.

Difficulty of the accountants to discriminate as between qualifying assets and non-qualifying assets.

The AS – 16 Borrowing Costs specifically demarcates assets between qualifying and non-qualifying assets. The Standard does not permit the capitalisation of borrowing costs incurred on non-qualifying assets.

The accountants should be well versed in the matter of segregating the qualifying and non-qualifying assets, otherwise the capitalisation becomes difficult. The responses of the accountants in this aspect are collected using a five point scale and the resultant data is depicted in Table 5.

Table 5

Difficulty of the Accountants to Discriminate Qualifying and Non-Qualifying Assets

		Frequency	Valid Percent	Cumulative Percent
Valid	Strongly disagree	9	30.0	30.0
	Disagree	1	3.3	33.3
	Strongly Agree	20	66.7	100.0
	Total	30	100.0	

Source: Primary data

Table 5 shows only the valid responses and it reveals that 66.7 percent of respondents are strongly agreeing that they are facing difficulty in this matter, 3.3 percent are disagreeing the statement and the remaining 30 percent are strongly disagreeing the statement.

Difficulty in correlating the borrowed funds towards qualifying and non-qualifying assets.

The right allocation of borrowed funds towards the qualifying asset is essential for proper accounting treatment. If the borrowed funds are not properly allocated, it will lead to wrong treatment of borrowing costs and adversely affect the qualitative characteristics of financial statements. The responses of the accountants in this issue are collected and depicted in Table 6.

Table 6

Difficulty to Correlate the Funding Towards Qualifying and Non-Qualifying Assets

		Frequency	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	33.3	33.3
	Agree	4	13.3	46.7
	Strongly Agree	16	53.3	100.0
	Total	30	100.0	

Source: Primary data

Table 6 shows that 53.3 percent respondents are strongly agreeing the statement that they are facing some difficulty in the matter of correlating the funds towards qualifying and non-qualifying assets, 13.3 percent are agreeing with the same statement and the balance 33.3 percent are strongly disagreeing the statement.

Difficulty as regards identification of starting point of capitalisation process

It is essential to have a clear-cut idea about the exact starting point of capitalisation process of borrowing costs in order to par with the provisions of AS – 16. Capitalisation of borrowing costs for a shorter or longer period as against the provisions of AS – 16 will affect both operating results and valuation of assets. In this respect, the responses of the accountants are summarised in table 7.

Table 7

Difficulty to Identify The Starting Point of Capitalisation Process

		Frequency	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	8	26.7	26.7
	Disagree	2	6.7	33.3
	Neutral	5	16.7	50.0
	Agree	8	26.7	76.7
	Strongly agree	7	23.3	100.0
	Total	30	100.0	

Source: Primary data

Table 7 shows that the statement as regards difficulty in identification of starting point of capitalisation process is strongly agreed by 23.3 percent of respondents, 26.7 percent are agreeing with the statement, 16.7 percent is neutral, 6.7 percent disagree and 26.7 percent strongly disagree with the statement.

Difficulty as regards suspension of capitalisation process due to abnormal delay in construction of qualifying assets.

Provisions of AS – 16 states that if there is a delay in the construction or active development process of qualifying assets due to abnormal reasons, the borrowing costs pertaining to such extended period shall not be capitalised but it should be expensed and charged to statement of profit and loss of the year in which it is actually incurred. There is a possibility that the accountant may not be able to identify such a situation. This aspect has been enquired and the results are depicted in table 8.

Table 8

Difficulty as Regards Suspension of Capitalisation Process Due to Abnormal Delay

		Frequency	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	30	30
	Disagree	1	3.3	33.3
	Neutral	3	10.0	43.3
	Agree	7	23.3	66.6
	Strongly Agree	10	33.3	100
	Total	30	100.0	

Source: Primary data

Table 8 shows that the statement regarding difficulty to identify the suspension period is strongly agreed by 33.3 percent, 23.3 percent agreed in this respect, 10 percent kept neutral, only 3.3 percent disagreed with the statement and 30 percent strongly disagreed with the statement.

Difficulty in relation to identification of point of cessation of capitalisation

The process of capitalisation should end as soon as the qualifying assets get ready for its intended use or sale. The Accounting Standard on Borrowing Costs will not allow the capitalisation process even after the completion of qualifying assets. In this aspect, the accountants may not be able to identify the exact point of time for cessation of capitalisation. The opinion of the respondents was collected and depicted in Table 9.

Table 9

Difficulty in Relation to Identification of Point of Cessation of Capitalisation

		Frequency	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	30.0	30.0
	Disagree	1	3.3	33.3
	Neutral	3	10.0	43.3
	Agree	6	20.0	63.3
	Strongly Agree	11	36.7	100.0
	Total	30	100.0	

Source: Primary data

From Table 9, it is evident that the statement regarding difficulty to identify the point of cessation of capitalisation is strongly agreed by 36.7 percent, 20 percent were agreeing the statement, another 10 percent were kept neutral in this aspect, 3.3 percent disagree the statement and 30 percent were strongly disagreed with regard to the statement.

Difficulty as regards presentation and disclosure techniques

The whole concepts of AS – 16 Borrowing Costs can be summed up in three major areas namely, Recognition & Measurement, Presentation, and Disclosure. Once the recognition and measurement aspects are covered, the presentation and disclosure aspects arise. Here also the accountants may find some difficulty in the matter of presentation and disclosure techniques. The difficulty with regard to presentation and disclosure were enquired and the results were depicted in Table 10.

Table 10

Difficulty as Regards Presentation and Disclosure Techniques

		Frequency	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	10	33.3	33.3
	Agree	4	13.3	46.7
	Strongly Agree	16	53.3	100.0
	Total	30	100.0	

Source: Primary data

Table 10 shows that 53.3 percent of respondents are strongly agreeing with the statement that there is difficulty in the matter of presentation and disclosure technique in relation to AS – 16 Borrowing Costs. Another 13.3 percent are agreeing with the statement. Finally, 33.3 percent of respondents are strongly disagreeing with the statement.

The above analysed six areas of difficulty faced by the accountants of non-corporate entities in connection with application of Accounting Standard 16 Borrowing Costs and their responses thereof can be summarised in the table 11.

Table 11

Summarised View of Difficulties in Adherence of AS 16

Statements	N	Minimum	Maximum	Mean	Std. Deviation
Difficult to discriminate	30	1	5	3.70	1.878
Difficult to correlate	30	1	5	3.53	1.852
Difficult to identify starting point	30	1	5	3.13	1.548
Difficult to identify suspension	30	1	5	3.27	1.680
Difficult to identify cessation	30	1	5	3.30	1.705
Presentation and Disclosure	30	1	5	3.53	1.852

Source: sample survey

From the data depicted in Table 11, it is clear that all the problems are having a mean score above 3 with a standard deviation above 1.5 to 1.8. This shows that the difficulty with regard to adherence of AS 16 Borrowing Costs is evident among most of the accountants of non-corporate entities. So, from the above analysis, it is clear that there is non-adherence of Accounting Standard - 16 Borrowing Costs among non-corporate entities. The levels of education of accountants, specialisation/stream of education of accountants, number of years of experience of accountants, period of education of accountants and the training programmes undergone by the accountants are some of the major reasons for the non-adherence of accounting standard.

Testing of Hypothesis

From the above analysis, it is evident that 33.3 percent (Table 1) of the accountants who had perused professional education like CA, CMA, CS, whether successfully qualified or not their educational programme can perform the work of an accountant far better than the accountant not perused any type of professional education programme. Hence, to test whether there is any significant difference among accountants having different levels of educational background with respect to adherence of AS – 16, a hypothesis has been framed as under.

Ho: Adherence of AS 16 is same across accountants having different levels of educational backgrounds.

Table 12

Ranks			
Difficult to discriminate	Education	N	Mean Rank
Non-capitalization	Graduate	7	17.86
	Post Graduate	13	21.92
	Graduate-Professional	10	5.50
	Total	30	

Table 13

Test Statisticsa,b	
	Non capitalization
Kruskal-Wallis H	20.912
Df	2
Asymp. Sig.	.000
a. Kruskal Wallis Test	
b. Grouping Variable: education	

Results of the Kruskal-wallis H test shows that there is significant difference among accountants with different levels of educational backgrounds towards adherence of AS – 16 Borrowing Costs. Here the KW H value is 20.912, with p value .000. Hence, the null hypothesis is rejected and found a significant difference among accountants having different educational background with a mean rank for non-adherence of 17.86 for graduate, 21.92 for post graduates and 5.50 for graduate-professionals. To test whether this difference exists between all the groups or between some groups only, pairwise comparison is made and the results are depicted in Table 14.

Table 14

Pairwise Comparisons of education

Sample 1-Sample 2	Test Statistic	Std. Error	Std. Test Statistic	Sig.	Adj. Sig.a
Graduate & Graduate-Professional	12.357	4.277	2.889	.004	.012
Post Graduate & Graduate-Professional	16.423	3.651	4.499	.000	.000
Graduate & Post Graduate	-4.066	4.069	-.999	.318	.953

Results of the Post hoc analysis reveals that adherence of AS - 16 among graduates and post graduates differed significantly when compared with Graduate-professionals at $p < .05$; but in the case of Graduates and Post graduates, they are not significantly different as $p > .05$. Hence, it can be concluded that the Graduate-professionals are adhering AS - 16 and the other two groups viz., Graduates and Post Graduates are not adhering AS 16.

Conclusion

In India, the Accounting Standard – 16 Borrowing Costs is applicable to all types of entities from 1st April, 2000. The adherences of this Standard by corporate entities are legally ensured through the mechanism of company audit which is done by professionally qualified Chartered Accountants. But in the case of non-corporate entities, the adherence is not checked at all. The current study revealed that there is non-adherence among non-corporate entities. The practice of non-adherence should be restricted and curtailed so that the financial reporting mechanism can par with international practices, leading to accuracy of financial judgement by the stake holders.

Suggestions

In order to make the non-corporate entities to adhere the Accounting Standards, the following suggestion are made:

1. As it is a matter of financial reporting, the wrong treatment will affect the results of operation leading to revenue fluctuations to the public exchequer. Hence, from the part of government, corrective measures should be initiated through various agencies like universities to pursue continuous education programmes for the benefit of working accountants with minimum cost to the beneficiaries for enriching the accounting profession.
2. As the apex agency, actions can be initiated by the Institute of Chartered Accountants of India by way of offering certification programmes with simple pedagogy for the working accountants in order to make them par with international community.
3. The Trade Associations, Chambers of Commerce and other voluntary organisations can conduct workshops, seminars etc. dealing with novel updates in the field of accounting for the common benefit of the society as a whole.

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