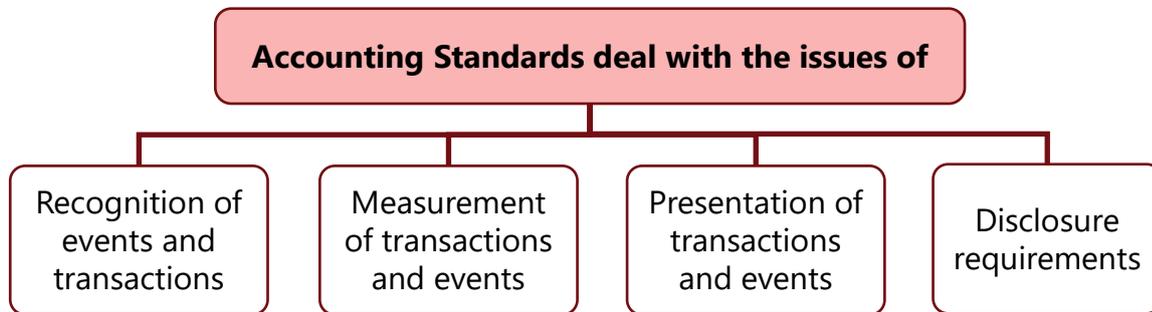
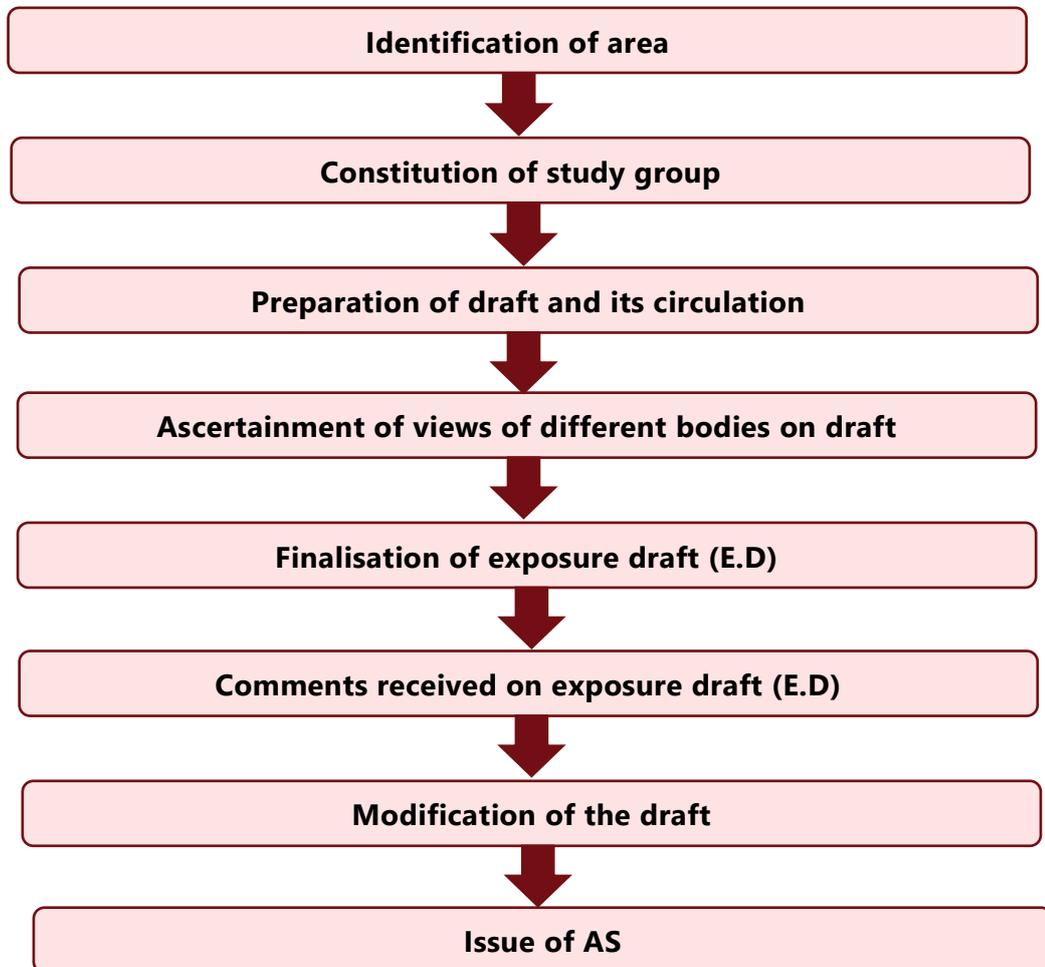


## UNIT – 7 ACCOUNTING STANDARDS

### LEARNING OUTCOMES

**After studying this unit, you will be able to:**

- ◆ Understand the significance of issuance of Accounting Standards.
- ◆ Grasp the objectives, benefits and limitations of Accounting Standards.
- ◆ Learn the process of formulation of Accounting Standards by the Council of the Institute of Chartered Accountants of India.
- ◆ Familiarize with the list of applicable Accounting Standards in India.

**UNIT OVERVIEW** **Formulation of Accounting Standards**



## 7.1 INTRODUCTION OF ACCOUNTING STANDARDS

Accounting as a 'language of business' communicates the financial results of an enterprise to various stakeholders by means of financial statements. If the financial accounting process is not properly regulated, there is possibility of financial statements being misleading, tendentious and providing a distorted picture of the business, rather than the true. To ensure transparency, consistency, comparability, adequacy and reliability of financial reporting, it is essential to standardize the accounting principles and policies. Accounting Standards (ASs) provide framework and standard accounting policies for treatment of transactions and events so that the financial statements of different enterprises become comparable.

Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in the company's economic performance. The accounting standards deal with the issues of -

- (i) recognition of events and transactions in the financial statements;
- (ii) measurement of these transactions and events;
- (iii) presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader; and
- (iv) the disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.



## 7.2 OBJECTIVES OF ACCOUNTING STANDARDS

The whole idea of accounting standards is centered around harmonisation of accounting policies and practices followed by different business entities so that the diverse accounting practices adopted for various aspects of accounting can be standardised. Accounting Standards standardise diverse accounting policies with a view to:

- (i) eliminate the non-comparability of financial statements and thereby improving the reliability of financial statements; and
- (ii) provide a set of standard accounting policies, valuation norms and disclosure requirements.

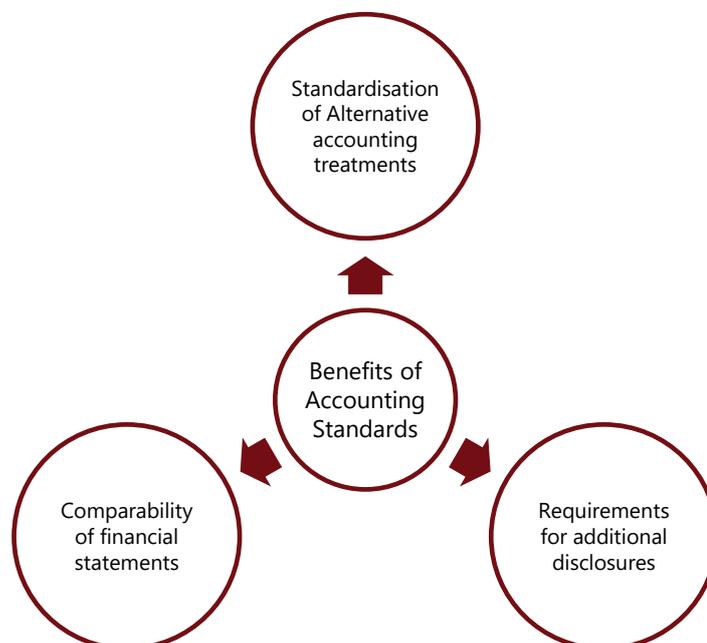
Accounting standards reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises.



## 7.3 BENEFITS AND LIMITATIONS OF ACCOUNTING STANDARDS

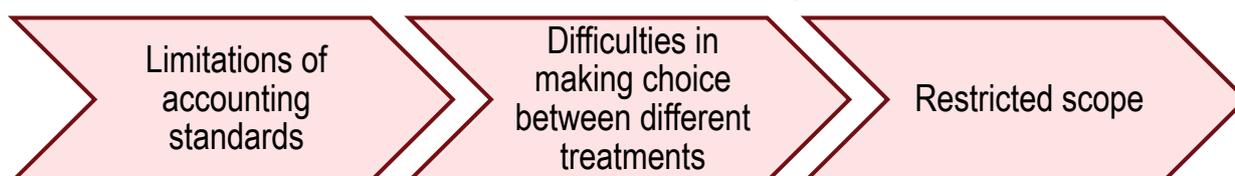
Accounting standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. By setting the accounting standards, the accountant has following benefits:

- (i) Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.
- (ii) There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.
- (iii) The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards adopted in different countries.



However, there are some limitations of accounting standards:

- (i) **Difficulties in making choice between different treatments:** Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.
- (ii) **Restricted scope:** Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.



## 7.4 PROCESS OF FORMULATION OF ACCOUNTING STANDARDS IN INDIA

The Institute of Chartered Accountants of India (ICAI), being a premier accounting body in the country, took upon itself the leadership role by constituting the Accounting Standards Board (ASB) in 1977. The ICAI has taken significant initiatives in the setting and issuing procedure of Accounting Standards to ensure that the standard-setting process is fully consultative and transparent. The ASB considers International Financial Reporting Standards (IFRSs) while framing Indian Accounting Standards (ASs) in India and try to integrate them, in the light of the applicable laws, customs, usages and business environment in the country. The composition of ASB includes, representatives of industries (namely, ASSOCHAM, CII, FICCI), regulators, academicians, government departments etc. Although ASB is a body constituted by the Council of the ICAI, it (ASB) is independent in the formulation of accounting standards and Council of the ICAI is not empowered to make any modifications in the draft accounting standards formulated by ASB without consulting with the ASB.

The standard-setting procedure of Accounting Standards Board (ASB) can be briefly outlined as follows:

- ◆ Identification of broad areas by ASB for formulation of AS.
- ◆ Constitution of study groups by ASB to consider specific projects and to prepare preliminary drafts of the proposed accounting standards. The draft normally includes objective and scope of the standard, definitions of the terms used in the standard, recognition and measurement principles wherever applicable and presentation and disclosure requirements.

- ◆ Consideration of the preliminary draft prepared by the study group of ASB and revision, if any, of the draft on the basis of deliberations.
- ◆ Circulation of draft of accounting standard (after revision by ASB) to the Council members of the ICAI and specified outside bodies such as Department of Company Affairs (DCA), Securities and Exchange Board of India (SEBI), Comptroller and Auditor General of India (C&AG), Central Board of Direct Taxes (CBDT), Standing Conference of Public Enterprises (SCOPE), etc. for comments.
- ◆ Meeting with the representatives of the specified outside bodies to ascertain their views on the draft of the proposed accounting standard.
- ◆ Finalisation of the exposure draft of the proposed accounting standard and its issuance inviting public comments.
- ◆ Consideration of comments received on the exposure draft and finalisation of the draft accounting standard by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance.
- ◆ Consideration of the final draft of the proposed standard and by the Council of the ICAI, and if found necessary, modification of the draft in consultation with the ASB is done.
- ◆ The accounting standard on the relevant subject (for non-corporate entities) is then issued by the ICAI. For unlisted corporate entities, having net worth of less than 250 crores the accounting standards are issued by The Central Government of India.

*There are three sets of Accounting Standards to cater different categories of entities based on their nature, size, and legal framework under which they operate, ensuring that each entity follows appropriate accounting principles for financial reporting These are:*

- (i) *Indian Accounting Standards (Ind AS) are applicable to all listed companies and Non-Banking Financial Companies (NBFCs) and to unlisted companies and unlisted NBFCs with net worth of INR 250 crores or more.*
- (ii) *Accounting Standards (AS) notified under Companies (Accounting Standards) Rules, 2021, are applicable to the companies other than those following Ind AS, as given in point (i). These companies are required to apply Accounting Standards (AS) notified under the Companies Act as Companies (Accounting Standards) Rules, 2021.*
- (iii) *Accounting Standards (AS) prescribed by ICAI are applicable for entities other than companies.*



## 7.5 LIST OF ACCOUNTING STANDARDS IN INDIA

The 'Accounting Standards' issued by the Accounting Standards Board establish standards which have to be complied by the business entities so that the financial statements are prepared in accordance with generally accepted accounting principles.

Following is the list of applicable Accounting Standards:

### List\* of Accounting Standards

Sl. No.	Number of the Accounting Standard (AS)	Title of the Accounting Standard
1.	AS 1	Disclosure of Accounting Policies
2.	AS 2 (Revised)	Valuation of Inventories
3.	AS 3 (Revised)	Cash Flow Statements
4.	AS 4 (Revised)	Contingencies and Events Occurring after the Balance Sheet Date
5.	AS 5 (Revised)	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
6.	AS 7 (Revised)	Accounting for Construction Contracts
7.	AS 9	Revenue Recognition
8.	AS 10	Property, Plant and Equipment
9.	AS 11 (Revised)	The Effects of Changes in Foreign Exchange Rates
10.	AS 12	Accounting for Government Grants
11.	AS 13	Accounting for Investments
12.	AS 14	Accounting for Amalgamations
13.	AS 15 (Revised)	Employee Benefits
14.	AS 16	Borrowing Costs
15.	AS 17	Segment Reporting
16.	AS 18	Related Party Disclosures
17.	AS 19	Leases
18.	AS 20	Earnings Per Share
19.	AS 21	Consolidated Financial Statements

20.	AS 22	Accounting for Taxes on Income
21.	AS 23	Accounting for Investments in Associates in Consolidated Financial Statements
22.	AS 24	Discontinuing Operations
23.	AS 25	Interim Financial Reporting
24.	AS 26	Intangible Assets
25.	AS 27	Financial Reporting of Interests in Joint Ventures
26.	AS 28	Impairment of Assets
27.	AS 29	Provisions, Contingent Liabilities & Contingent Assets

**\* Note: The list of accounting standards given above does not form part of syllabus. It has been given here for the knowledge of students only.**

### **\*\*Indian Accounting Standards (IND AS)**

The Institute of Chartered Accountants of India (ICAI) being the accounting standards-setting body in India, way back in 2006, initiated the process of moving towards the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) with a view to enhance acceptability and transparency of the financial information communicated by the Indian corporates through their financial statements. This move towards IFRS was subsequently accepted by the Government of India.

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRSs issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders. Accordingly, while formulating IFRS- converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IFRS and departures have been made where considered absolutely essential. Certain changes have been made considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS.

### **List of Ind as on 1<sup>st</sup> August, 2024**

Ind AS	Title of Ind AS
101	First -Time Adoption of Indian Accounting Standards
102	Share- Based Payment
103	Business Combinations

Ind AS	Title of Ind AS
104	Insurance Contracts
105	Non-current Assets Held for Sale and Discontinued Operations
106	Exploration for and Evaluation of Mineral Resources
107	Financial Instruments: Disclosures
108	Operating Segments
109	Financial Instruments
110	Consolidated Financial Statements
111	Joint Arrangements
112	Disclosure of Interests in Other Entities
113	Fair Value Measurement
114	Regulatory Deferral Accounts
115	Revenue from Contracts with Customers
116	Leases
1	Presentation of Financial Statements
2	Inventories
7	Statement of Cash Flows
8	Accounting Policies, Changes in Accounting Estimates and Errors
10	Events after the Reporting Period
12	Income Taxes
16	Property, Plant and Equipment
19	Employee Benefits
20	Accounting for Government Grants and Disclosure of Government Assistance
21	The Effects of Changes in Foreign Exchange Rates
23	Borrowing Costs
24	Related Party Disclosures
27	Separate Financial Statements
28	Investment in Associates and Joint Ventures
29	Financial Reporting in Hyperinflationary Economies
32	Financial Instruments: Presentation
33	Earnings per Share
34	Interim Financial Reporting

Ind AS	Title of Ind AS
36	Impairment of Assets
37	Provisions, Contingent Liabilities and Contingent Assets
38	Intangible Assets
40	Investment Property
41	Agriculture

### **\*\*Accounting Standards for Local Bodies**

Accounting Standards for local bodies are Accounting Standards that are applicable to the local bodies whose primary objective is to deliver services to the public, rather than to make profits and generate a return on equity to investors. Consequently, the performance of such entities can be only partially evaluated by examination of financial position, financial performance and cash flows.

### **List of Accounting Standards for Local Bodies (ASLB) as on 1st August, 2024**

ASLB	Title of ASLB
1	Presentation of Financial Statements
2	Cash Flow Statements
3	Accounting Policies, changes in Accounting Estimates and Errors
4	The Effects of Changes in Foreign Exchange Rates
5	Borrowing Costs
9	Revenue from Exchange Transactions
11	Construction Contracts
12	Inventories
13	Leases
14	Events After the Reporting Date
16	Investment Property
17	Property, Plant and Equipment
18	Segment Reporting
19	Provision, Contingent Liabilities and Contingent Assets
20	Related Party Disclosures
21	Impairment of Non-Cash-Generating Assets
23	Revenue from Non-Exchange Transaction (Taxes and Transfers)

ASLB	Title of ASLB
24	Presentation of Budget Information in Financial Statements
26	Impairment of Cash-Generating Assets
31	Intangible Assets
32	Service Concession Arrangements: Grantor
33	First-Time Adoption of Accrual Basis Accounting Standards for Local Bodies (ASLBs)
34	Separate Financial Statements
35	Consolidated Financial Statements
36	Investment in Associates and Joint Ventures
37	Joint Arrangements
38	Disclosure of Interests in Other Entities
39	Employee Benefits
40	Entity Combinations
42	Social Benefits
	Financial Reporting under Cash Basis of Accounting

**\*\*Note: Ind AS and ASLB given above do not form part of the syllabus. They have been discussed here for the knowledge of students only.**

## SUMMARY

- ◆ Accounting Standards (ASs) provide framework and standard accounting policies for treatment of transactions and events so that the financial statements of different enterprises become comparable. Accounting Standards standardise diverse accounting policies with a view to:
  - (i) eliminate the non-comparability of financial statements
  - (ii) provide a set of standard accounting policies, valuation norms and disclosure requirements
- ◆ By setting the accounting standards, the accountant has following benefits:
  - (i) Comparability of financial statements
  - (ii) Requirements of additional disclosures
- ◆ Following are the limitations of accounting standards
  - (i) Difficulties in making choice between different treatments.
  - (ii) Accounting standards cannot override the statute

## TEST YOUR KNOWLEDGE

### True and False

1. Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.
2. Accounting standards can override the statute.
3. Difficulties in making choice between different treatments is one of the benefits of accounting standards.
4. Requirements for additional disclosures is limitation of accounting standards.
5. ASB stands for Accounting standardisation benchmarking.
6. There are no limitation to accounting standards.

### Multiple Choice Questions

1. Accounting Standards for Non-Corporate entities in India are issued by
  - (a) Central Govt.
  - (b) State Govt.
  - (c) Institute of Chartered Accountants of India.
2. Accounting Standards
  - (a) Harmonise accounting policies.
  - (b) Eliminate the non-comparability of financial statements.
  - (c) Both the above.
3. It is essential to standardize the accounting principles and policies in order to ensure
  - (a) Transparency.
  - (b) Consistency.
  - (c) Both the above.

### Theoretical Questions

1. Explain the objective of "Accounting Standards" in brief.
2. State the advantages of setting Accounting Standards.

## ANSWERS/HINTS

### True and False

1. True: Accounting standards are documents covering recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.
2. False: Accounting standards can never override the statute. The standards are required to be framed within the ambit of prevailing statutes.
3. False: Difficulties in making choice between different treatments is one of the limitation of accounting standard.
4. False: Benefits of accounting standards are:
  - Standardisation of alternative accounting treatments
  - Comparability of financial statements
  - Requirements for additional disclosures.
5. False: ASB stands for Accounting Standard Board.
6. False: limitations of accounting standards
  - Difficulties in making choice between different treatments
  - Restricted scope

### Multiple Choice Questions

1.	(c)	2.	(c)	3.	(c)						
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### Theoretical Questions

1. Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. The main objective of Accounting Standards is to establish standards which have to be complied with, to ensure that financial statements are prepared in accordance with generally accepted accounting principles. Accounting Standards seek to suggest rules and criteria of accounting measurements. These standards harmonize the diverse accounting policies and practices at present in use in India.
2. The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements. The other advantages are:  
Reduction in variations; Disclosures beyond that required by law and Facilitates comparison.

