



08

INTRODUCTION TO ACCOUNTING STANDARDS

1. What are Accounting Standards?

Accounting Standards are written policy documents, covering guidelines relating to Issues in Financial Reporting.

2. Which Issues are Covered by AS?

AS deals with the following issues:-

- (a) Recognition; (when to recognise a transaction in Books of Accounts)
- (b) Measurement; (At what Value to recognise transactions in Books of Accounts)
- (c) Presentation; (How to present the transactions in this Financial Statements)
- (d) Disclosure;

3. WHY AS?

AS are introduced so that there can be:-

- (a) Uniformity;
- (b) Comparability;
- (c) Better Decision Making;

4. How Many AS?

At Intermediate Level there are 27 AS to be studied, from:-

AS 1 to AS 29 issued by ASB of ICAI Notified By MCA

5. To Whom AS are Applicable?

AS are applicable to ALL Business entities. AS are not applicable to entities engaged in solely Charitable Activities. (e.g. an organisation collecting donations and giving them to flood affected people)

Business Entities are classified as:-



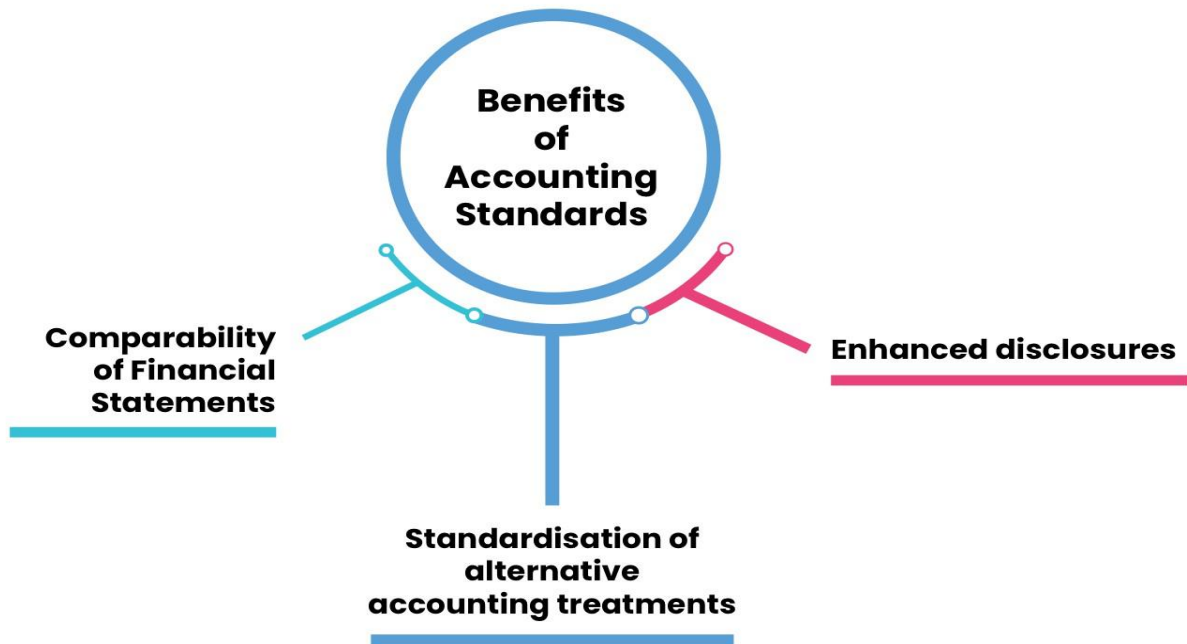
- Corporate entities; (Companies)
- Non-Corporate Entities; (Other than Companies)

List of Accounting Standards

1	Disclosure of Accounting Policies
2	Valuation of Inventories
3	Cash Flow Statement
4	Contingencies and Events Occurring after the Balance Sheet Date
5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
7	Construction Contracts
9	Revenue Recognition
10	Property, Plant and Equipment
11	The Effects of Changes in Foreign Exchange Rates
12	Accounting for Government Grants
13	Accounting for Investments
14	Accounting for Amalgamations
15	Employee Benefits
16	Borrowing Costs
17	Segment Reporting
18	Related Party Disclosures
19	Leases
20	Earnings Per Share
21	Consolidated Financial Statements
22	Accounting for Taxes on Income
23	Accounting for Investments in Associates in Consolidated Financial Statements
24	Discontinuing Operations
25	Interim Financial Reporting
26	Intangible Assets
27	Financial Reporting of Interests in Joint Ventures
28	Impairment of Assets
29	Provisions, Contingent Liabilities and Contingent Assets

Effectively, there are now only 27 Accounting Standards.

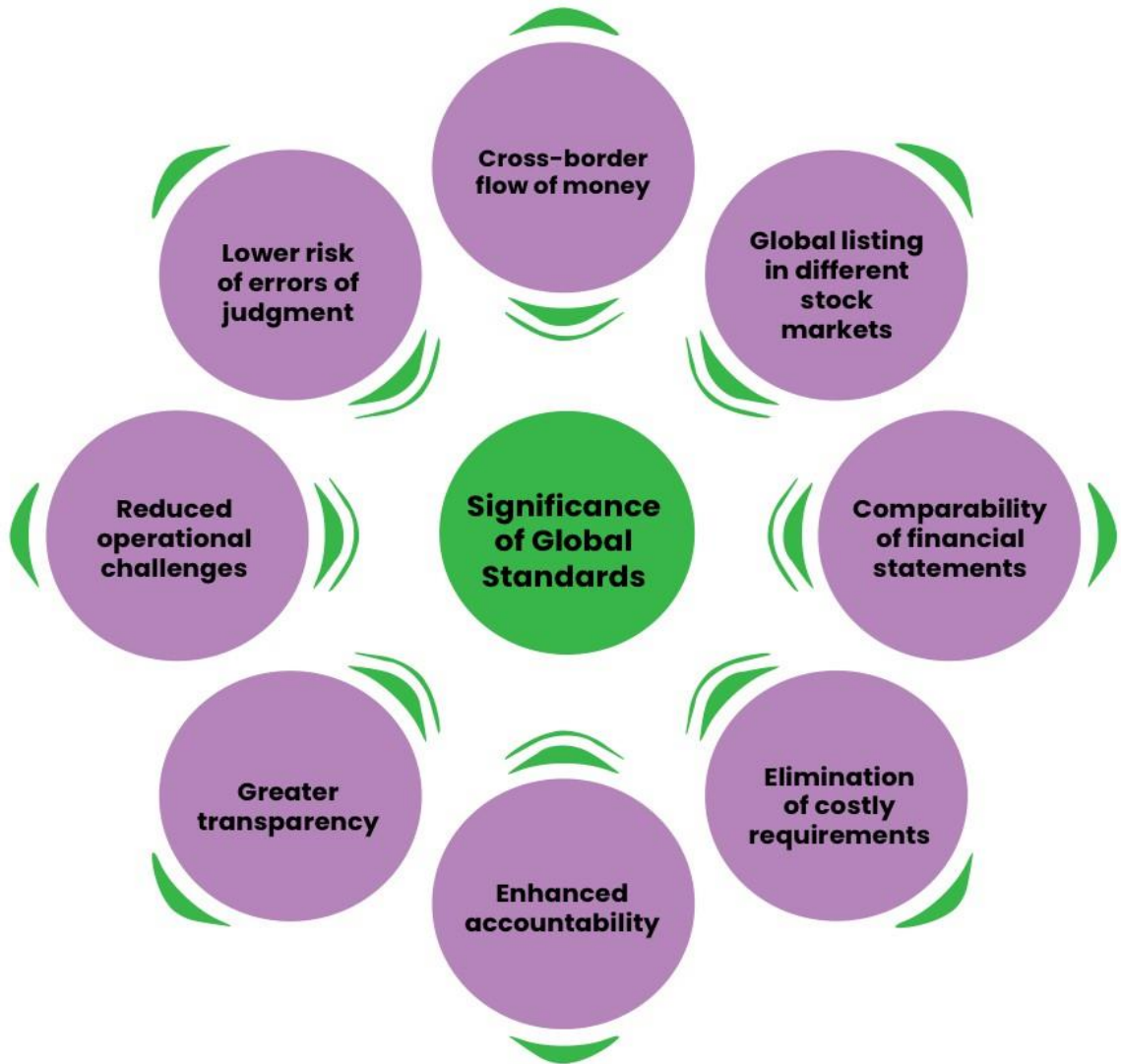
Accounting Standards deal with aspects of accounting events



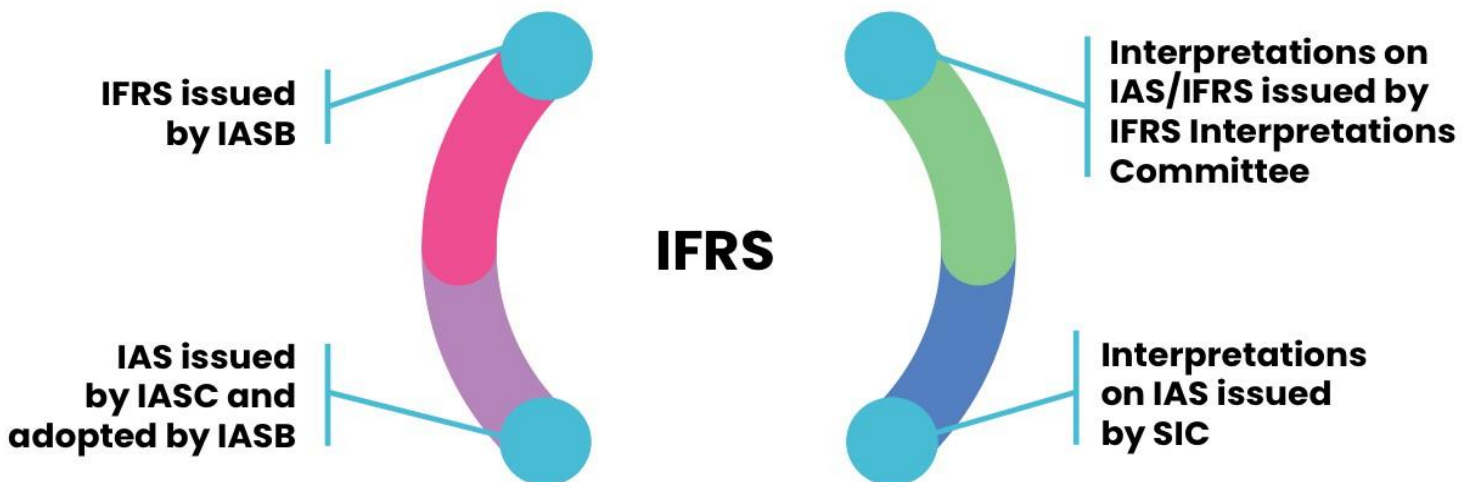
Accounting standards setting process



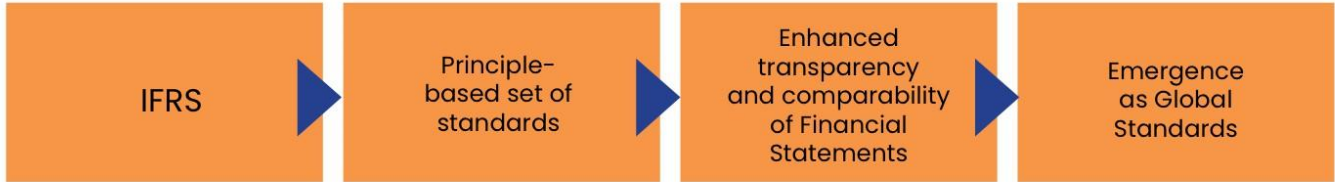
Significance of Global Standards



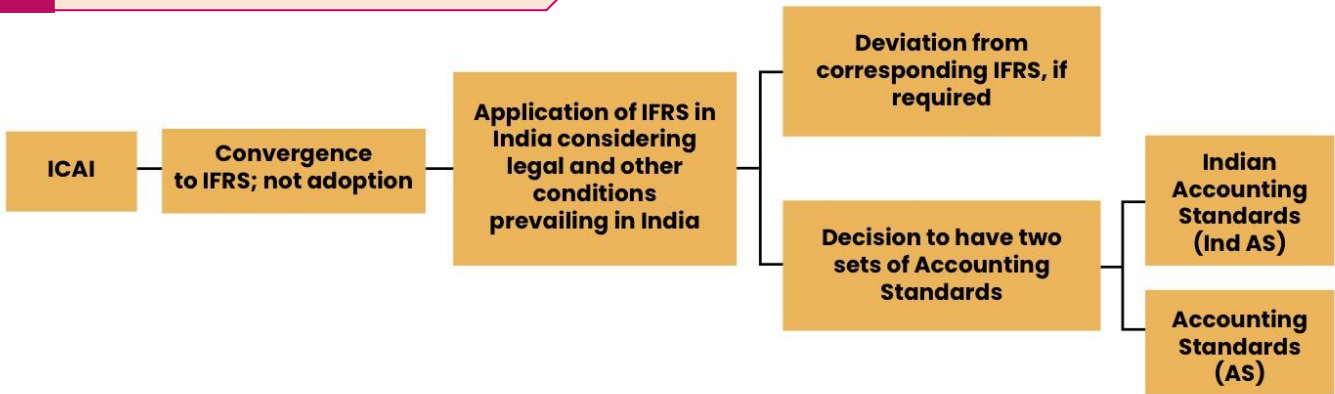
International Financial Reporting standards (IFRS)



International Financial Reporting Standards (IFRS) as Global Standards



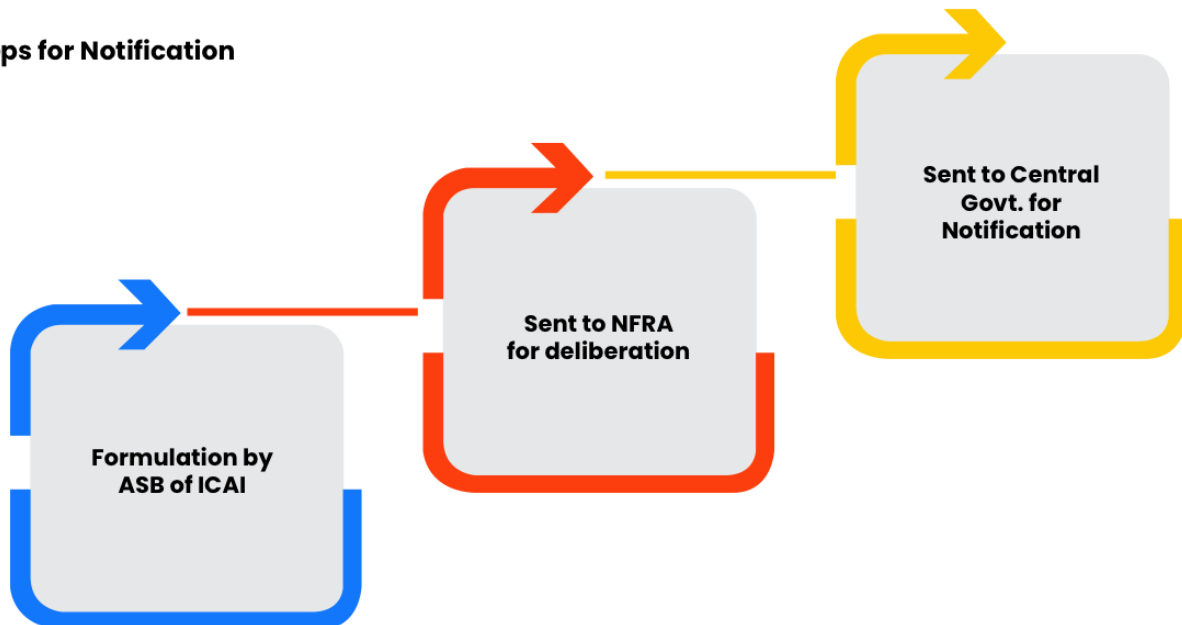
Convergence to IFRS in India



Ind AS

IndAS and IFRS converged Accounting Standards issued by the Central Government.

Steps for Notification



Indian Accounting standards-Benefits

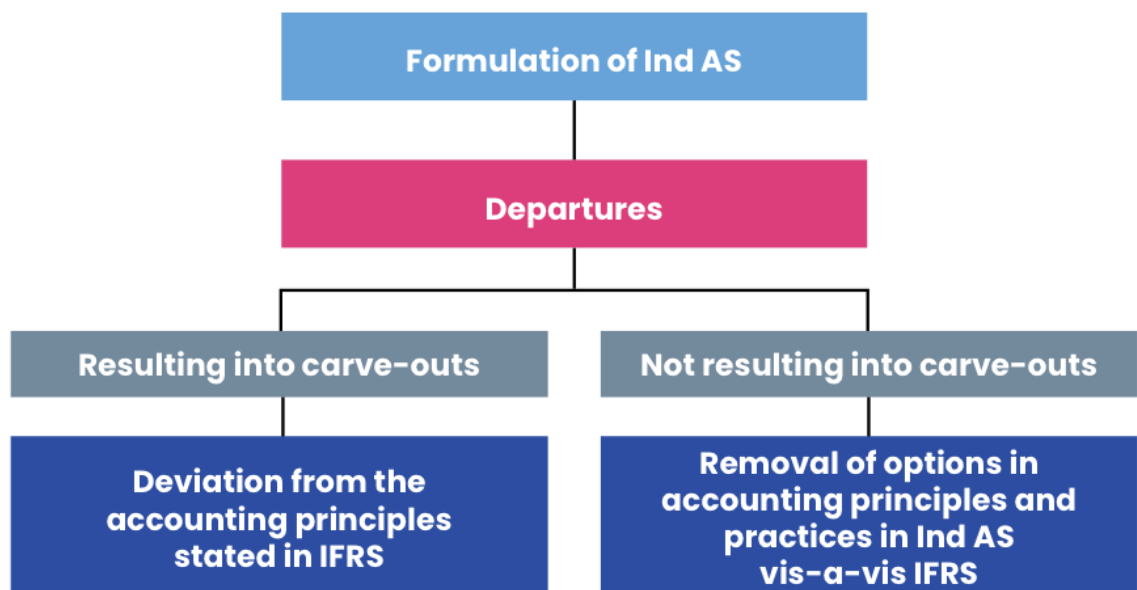
Globalization and Liberalization

Transparency of financial statements

Comparability of financial statements

Enhanced Disclosure requirements

Objective and Concepts of carve-outs



Applicability of IND AS In India

Companies (Ind AS) Rules, 2015 (Rule 4)

Companies

Phase -1	1.4.2016	Net worth \geq ₹ 500 Crore
Phase - 2	1.4.2017	All listed + unlisted with Net worth \geq ₹ 250 Crore

Exception

Banking Companies	N.A
Insurance Companies	N.A
NBFC	Phase - I - 1.4.2018 - Net worth \geq ₹ 500 Crore Phase - II - 1.4.2019 - All listed + unlisted with Net worth \geq ₹ 250 Crore

LIST OF IND AS

The following is the list of notified Ind AS *vis-a-vis* IFRS and AS:

Ind AS	IAS/ IFRS	Title of Ind AS/IFRS	AS/GN	AS/GN Title
101	IFRS 1	First Time Adoption of Indian Accounting Standards	-	-
102	IFRS 2	Share Based Payment	GN	Guidance Note on Accounting for Share-based Payments
103	IFRS 3	Business Combinations	AS 14	Accounting for Amalgamations
104	IFRS 4	Insurance Contracts	-	-
105	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	AS 24	Discontinuing Operations
106	IFRS 6	Exploration for and Evaluation of Mineral Resources	GN 15	Guidance Note on Accounting for Oil and Gas Producing Activities
107	IFRS 7	Financial Instruments: Disclosures	-	-
108	IFRS 8	Operating Segments	AS 17	Segment Reporting
109	IFRS 9	Financial Instruments	-	-
110	IFRS 10	Consolidated Financial Statements	AS 21	Consolidated Financial Statements
111	IFRS 11	Joint Arrangements	AS 27	Financial Reporting of Interests in Joint Ventures
112	IFRS 12	Disclosure of Interests in Other Entities	-	-
113	IFRS 13	Fair Value Measurement	-	-
114	IFRS 14	Regulatory Deferral Accounts	GN	Accounting for Rate Regulated Activities

115	IFRS 15	Revenue contracts from customers	with	AS 7 AS 9	Construction Contract Revenue Recognition
116	IFRS 16	Leases		AS 19	Leases
	IFRS 17	Insurance Contracts			
1	IAS 1	Presentation of Financial Statements		AS 1	Disclosure of Accounting Policies
2	IAS 2	Inventories		AS 2	Valuation of Inventories
7	IAS 7	Statement of Cash Flows		AS 3	Cash Flow Statements
8	IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors		AS 5	Net Profit or Loss for the Period, Prior period Items and Changes in Accounting Policies
10	IAS 10	Events after the Reporting Period		AS 4	Contingencies and Events Occurring After the Balance Sheet date
12	IAS 12	Income Taxes		AS 22	Accounting for Taxes on Income
16	IAS 16	Property, Plant and Equipment		AS 10	Property, Plant and Equipment
19	IAS 19	Employee Benefits		AS 15	Employee Benefits
20	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance		AS 12	Accounting for Government Grants
21	IAS 21	The Effects of Changes in Foreign Exchange Rates		AS 11	The Effects of Changes in Foreign Exchange Rates
23	IAS 23	Borrowing Costs		AS 16	Borrowing Costs
24	IAS 24	Related Party Disclosures		AS 18	Related Party Disclosures
27	IAS 27	Separate Financial Statements		-	-



28	IAS 28	Investment in Associates and Joint Ventures	AS 23	Accounting for Investment in Associates in Consolidated Financial Statements
29	IAS 29	Financial Reporting in Hyperinflationary Economies	-	-
32	IAS 32	Financial Instruments: Presentation	-	-
33	IAS 33	Earnings per Share	AS 20	Earnings per Share
34	IAS 34	Interim Financial Reporting	AS 25	Interim Financial Reporting
36	IAS 36	Impairment of Assets	AS 28	Impairment of Assets
37	IAS 37	Provisions, Contingent Liabilities and Contingent Assets	AS 29	Provisions, Contingent Liabilities and Contingent Assets
38	IAS 38	Intangible Assets	AS 26	Intangible Assets
40	IAS 40	Investment Property	AS 13	Accounting for Investments
41	IAS 41	Agriculture	-	-

09 CONCEPTUAL FRAMEWORK

ICAI has given framework

ICAI has given framework i.e guidelines for preparation and presentation of FS

Framework Covers Matters Like

Qualitative Characteristics	Provides definition of	Measurement basis	Underlying assumption
(a) Understandability	(a) Assets	(a) Cost	(a) Going Concern
(b) Comparability	(b) Liability	(b) Realisable Value	(b) Accrual
(c) Relevance	(c) Income	(c) NRV	(c) Consistency
(d) Reliability	(d) Expense	(d) Present Value	
	(e) Equity		

Capital Maintenance

Financial Capital Maintenance Nominal growth	Physical Capital Maintenance Real Growth
Whether Closing Capital is > Opening Capital, excluding dividends / fresh issue / buy back	Whether closing capital at current cost > Opening Capital at current cost, excluding dividends / fresh issue / buy back (inflation adjusted)



Past Year Exams

Question:1

What are Accounting Standards? Explain the issues, with which they deal.
(May 13) (May18) (RTP May16) (RTP Nov17) (RTP Nov18)

Answer:- Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. Accounting Standards reduce the accounting alternatives in the preparation of financial statements and ensure standardization of alternative accounting treatments and comparability of financial statements of different enterprises.

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) 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.



Question:2

M/s X & Co. (a partnership firm), had a turnover of 1.25 crores (excluding other income) and borrowings of 0.95 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2016. Advise the management of M/s X & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI. (RTP Nov13, Nov15, May17)

Question:3

A company was classified as Non-SMC in 2013-14. In 2014-15 it has been classified as SMC. The management desires to avail the exemption or relaxations available for SMCs in 2014-15. However, the accountant of the company does not agree with the same. Comment. (RTP May15)

Answer:-As per Rule 5 of the Companies (Accounting Standards) Rules, 2006, an existing company, which was previously not an SMC and subsequently becomes an SMC, shall not be qualified for exemption or relaxation in respect of accounting standards available to an SMC until the company remains an SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions available with the SMCs for the year ended 31st March, 2015.



Question:4

Comment whether the following Companies can be classified as a Small and Medium Sized Company (SMC) as per the Companies (Accounting Standards), Rules, 2006:

(i) A Pvt. Ltd., a subsidiary of a multinational company listed on London Stock Exchange. It has a turnover of 12 crores and borrowings of ₹ 5 crores.

(ii) B Pvt. Ltd., has a turnover of 45 crores, other income of 7 crores and bank borrowings of 9 crores. (RTP May14)

Answer:-As per the companies (Accounting Standards) Rules, 2006, "Small and Medium Sized Company" (SMC) means, a company:

(i) Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India'

(ii) Which is not a bank, financial institution or an insurance company;

(iii) Whose turnover (excluding other income) does not exceed rupee; fifty crore in the immediately preceding accounting year,

iv) Which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and

(v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Explanation: a company shall qualify as a Small and Medium Sized Company, if the condition mentioned, therein are satisfied as at the end of the relevant accounting period.

(1) As per the definition of SMC, point (v), a company will be a SMC, if it is not holding or subsidiary company of another company which is not a SMC. Since A Pvt. Ltd., is a subsidiary of another Company which is listed, on London Stock Exchange (and is therefore not a SMC), A Pvt. Ltd., cannot be a SMC. The turnover and borrowings are not relevant in this case.

(ii) As per the definition of SMC, point (iii), a company will be a SM' turnover does not exceed 50 crores or borrowings do not exceed 10 For calculating this turnover, other income is not to be included. Since Ltd., has a turnover of 45 crores and borrowing of 9 crores, it will satisfy the definition and can be classified as SMC.

Question:5

"Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements, "Discuss and explain the benefits of Accounting Standards (Nov 21) (Nov18, 4 Marks)

Answer:-Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.

The following are the benefits of Accounting Standards:

- (i) Standardization of alternative accounting treatments: Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.
- (ii) Requirements for additional disclosures: There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.
- (iii) Comparability of financial statements: The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. 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.



Question:6

Balance Sheet of Anurag Trading Co. on 31 March, 2014 is given below:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	50,000	Fixed Assets	69,000
Profit and loss A/C	22,000	Stock in trade	36,000
10% Loan	43,000	Trade Receivable	10,000
Trade payables	18,000	Deferred expenditure	15,000
	-	Bank	3,000
	1,33,000		1,33,000

Additional Information:

- Remaining life of fixed assets is 5 years with even use. The net realizable value of fixed assets as on 31st March, 2015 was 64,000.
 - Firm's sales and purchases for the year 2014-15 amounted to 5 lacs and ₹ 4.50 lacs respectively.
 - The cost and net realizable value of the stock were 34,000 and 38,000 respectively.
 - General Expenses for the year 2014-15 were 16,500.
 - Deferred Expenditure is normally amortised equally over 4 years starting from F.Y. 2013-14 i.e. ₹5,000 per year.
 - Out of debtors worth 10,000, collection of ₹4,000 depends on successful re-design of certain product already supplied to the customer.
 - Closing trade payable is 10,000, which is likely to be settled at 95%.
 - There is pre-payment penalty of 2,000 for Bank loan outstanding.
- Prepare Profit & loss Account for the year ended 31 March, 2015 by assuming it is not a Going Concern. (5 Marks Nov 15, 4 Marks Jan 25)

(May 19, Nov 20)

Answer:-

P &L Account of Anurag Trading co. for the year ended 31st March 2015
(Assuming business is not a going concern)

Particular	Amount (₹)	Particular	Amount (₹)
To Opening stock	36,000	By sales	5,00,000
To Purchases	4,50,000	By Trade payables	500
To Expenses	16,500	By Closing stock	38,000
To Depreciation	5,000		
To pro.for doubtful debt	4,000		
To Deferred expenditure	15,000		
To Loan penalty	2,000		
To Net profit	10,000		
	5,38,500		5,38,500

Question:7

Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.
(IPCC, Nov 16, 4Marks)

Answer:- The Framework for Recognition and Presentation of Financial statements recognises four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss. These bases are: (i) Historical Cost; (ii) Current cost (iii) Realisable (Settlement) Value and (iv) Present Value.

A brief explanation of each measurement basis is as follows:

1. Historical Cost: Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation.

2. **Current Cost:** Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

3. **Realisable (Settlement) Value:** As per realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.

4. **Present Value:** Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

Question:8

Write short note on main elements of Financial Statements.

(May17 Ipcc,4 Marks)

Answer:- Elements of Financial Statements

The framework classifies items of financial statements can be classified in five broad groups depending on their economic characteristics: Asset, Liability, Equity, Income/Gain and Expense/Loss.

Assets

Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise

Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities.
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.

Question:9

Shankar started a business on 1st April, 2017 with 12,00,000 represented by 60,000 units of 20 each. During the financial year ending on 31st March, 2018, he sold the entire stock for 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Shankar in the year 2017-18 if Financial Capital is maintained at Historical cost.

(May18, 4 Marks)

Answer:-

(Jan 21)

Particulars	Financial capital Maintenance at Historical cost (₹)
Closing equity (₹30 x 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units x 20 = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (18,00,000 - 12,00,000)

Therefore, 6,00,000 is the maximum amount which can be withdrawn by Shankar in the year 2017-18 if the Financial Capital Maintenance is maintained at Historical Cost.

Q.10

Mille started a business on 01.04.2022 with a capital of ₹ 15,00,000. She purchased 1,500 units of stock at ₹ 1,000 each. She sold the entire stock for ₹ 1,500 each unit till 31.03.2023.

You are required to calculate the maximum amount which can be withdrawn by Mille in order to keep her capital intact, if Financial Capital is maintained at:

- (i) Historical Cost
- (ii) Current Purchasing Power (opening index at 100 and closing index at 125)
- (iii) Physical Capital Maintenance

(Price per unit at the end of year is ₹ 1,350)

(may 23) (5 Marks)

Financial Capital Maintenance at historical Costs

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x 1,000	15,00,000
(ii)	Closing Equity	1,500 x 1,500	<u>22,50,000</u>
(iii)	Maximum Drawing	ii-i	7,50,000

Financial Capital Maintenance at current purchasing power

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x 1,000 x 125/100	18,75,000
(ii)	Closing Equity	1,500 x 1,500	<u>22,50,000</u>
(iii)	Maximum Drawing	ii-i	3,75,000

Financial Capital Maintenance at Physical Capital Maintenance

Sr. No.	Particulars	Computation	₹
(i)	Opening Equity	1,500 x 1,350	20,25,000
(ii)	Closing Equity	1,500 x 1,500	<u>22,50,000</u>
(iii)	Maximum Drawing	ii-i	2,25,000

“My moral in life is simple, you treat me good and I’ll definitely treat you better.”

