

**INTRODUCTION TO ACCOUNTING STANDARDS**

<p><b>Generally Accepted Accounting Principles (GAAP)</b></p>	<ul style="list-style-type: none"> <li>GAAP refer to a common set of accepted accounting principles, standards, and procedures that business reporting entity must follow when it prepares and present its financial statements.</li> <li>It's a combination of authoritative standards (set by policy boards) &amp; the commonly accepted ways of recording &amp; reporting accounting information</li> <li>At international level such authoritative standards are known as International Financial Reporting Standards (IFRS) and in India we have authoritative standards named as AS and IND-AS</li> </ul>
<p><b>Meaning of AS</b></p>	<p>Accounting standards are written policy documents issued by expert accounting body or by government with the support of other regulatory bodies [e.g. MCA issuing AS for companies in consultation with NFRA (National Financial Reporting Authority)] covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements.</p>
<p><b>Issues dealt by AS</b></p>	<ul style="list-style-type: none"> <li>➤ Recognition of events and transactions in the financial statements.</li> <li>➤ Measurement of these transactions and events.</li> <li>➤ Presentation of these transactions &amp; events in financial statements in a manner that is meaningful and understandable to the reader.</li> <li>➤ The disclosure requirements which should be there to enable public at large, the stakeholders and potential investors in particular, to get an insight in to what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.</li> </ul>
<p><b>Objectives</b></p>	<ul style="list-style-type: none"> <li>➤ The primary objective is to establish standards which have to be complied with to ensure that the financial statements are prepared in accordance with generally accepted accounting principles.</li> <li>➤ To provide standard for the diverse accounting policies and principles.</li> <li>➤ To eliminate the non-comparability of financial statements.</li> <li>➤ To increase/improve the reliability of the financial statements.</li> <li>➤ To provide standards which are transparent for users.</li> </ul>
<p><b>Benefits</b></p>	<ul style="list-style-type: none"> <li>➤ Standardization of alternative accounting treatment (Reduce/ eliminate confusing variations in the accounting treatments used to prepare the financial statements)</li> <li>➤ Requirement for additional disclosures. (disclosures which are not statutorily required)</li> <li>➤ Comparability of financial statements.</li> </ul>
<p><b>Limitations</b></p>	<ul style="list-style-type: none"> <li>➤ Difficulties in making choice between different treatments.</li> <li>➤ Lack of flexibilities → Rigidity</li> <li>➤ Restricted scope (accounting standards cannot override the statute)</li> </ul>

<p><b>Standards setting process</b></p>	<p>ICAI has constituted the <b>Accounting Standard Board</b> (ASB) in 1977. ASB is responsible for setting accounting standards. Although ASB is a body constituted by council of ICAI, it is independent in the formulation of accounting standards and council of ICAI is not empowered to make any modifications in the draft AS formulated by ASB without consulting with the ASB.</p>
<p><b>Process</b></p>	<ul style="list-style-type: none"> <li>➤ Identification of area (where standardization is required)</li> <li>➤ Constitution of study groups (for research)</li> <li>➤ Preparation of draft and its circulation</li> <li>➤ Ascertainment of views of different bodies on draft (like SEBI, CBDT, C&amp;AG)</li> <li>➤ Finalization of exposure draft</li> <li>➤ Comments reviewed on exposure draft (public comments)</li> <li>➤ Modification of the draft</li> <li>➤ Issue of AS             <ul style="list-style-type: none"> <li>• For Non Corporate Entities by ICAI</li> <li>• For Corporate Entities by Ministry of Corporate Affairs in consultation with NFRA</li> </ul> </li> </ul>

## NEED FOR CONVERGENCE TOWARDS GLOBAL STANDARDS

Each country has its own set of rules and regulations for accounting and financial reporting. Therefore, when an enterprise decides to raise capital from the markets other than the country in which it is located, the rules and regulations of that other country will apply and this in turn will require that the enterprise is in a position to understand the differences between the rules governing financial reporting in the foreign country as compared to its own country of origin.

International analysts and investors would like to compare financial statements based on similar accounting standards, and this has led to the growing support for an internationally accepted set of accounting standards for cross-border filings.

Few aspects which required the need for convergence are : Raising funds from international markets, Comparability of financial statements, Uniformity, Comparability, Transparency etc. and Global Investment.

### SIGNIFICANCE:

- Global Standards facilitate cross border flow of money, global listing in different stock markets and comparability of financial statements.
- The convergence of financial reporting and Accounting Standards is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders.
- It improves the ability of investors to compare investments on a global basis and, thus, lower their risk of errors of judgment.
- It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements.

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## INTERNATIONAL FINANCIAL REPORTING STANDARDS AS GLOBAL STANDARDS

The term **International Financial Reporting Standards (IFRS)** comprises IFRS issued by IASB; IAS issued by International Accounting Standards Committee (IASC); Interpretations issued by the Standard Interpretations Committee (SIC) and Interpretations issued by the IFRS Interpretations Committee of the IASB.

International Financial Reporting Standards (IFRSs) are considered a "principles based" set of standards. In fact, they establish broad rules rather than dictating specific treatments.

### BECOMING IFRS COMPLIANT

Any country can become IFRS compliant either by adoption process or by convergence process.

**Adoption** would mean that the country sets a specific timetable when specific entities would be required to use IFRS as issued by the IASB.

**Convergence** means that the country will develop high quality, compatible accounting standards over time. Convergence means alignment of the standards of different standard setters with a certain rate of compromise, by adopting the requirements of the standards either fully or partially. Indian Accounting Standards are almost similar to IFRS but with few carve outs so as to make them suitable for Indian Environment.

### Convergence with IFRS will result in following benefits:

- Improves investor confidence across the world with transparency and comparability
- Improves inter-unit/ inter-firm/inter-industry comparison
- Group consolidation will be easy with same standard by all companies in group irrespective of their global location.
- Acceptability of financial statements by stock exchanges across the globe, which will facilitate listing of Indian companies to international stock exchanges.

## ISSUE OF IND AS

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS 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 IAS/IFRS and departures have been made where considered absolutely essential.

**Indian Accounting Standards (Ind AS)** are IFRS converged standards issued by the Central Government of India under the supervision and control of Accounting Standards Board (ASB) of ICAI and in consultation with NFRA. NFRA recommends these standards to the MCA and MCA has to spell out the AS applicable for companies in India.

Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS).

In July 2014, the Finance Minister of India at that time, Shri Arun Jaitely ji, in his Budget Speech, announced an urgency to converge the existing accounting standards with the International Financial Reporting Standards (IFRS) through adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies

The Ministry of Corporate Affairs (MCA) has issued the Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 covering the revised roadmap of implementation of Ind AS for companies other than Banking companies, Insurance Companies and NBFCs and Indian Accounting Standards (Ind AS).

As per the Notification, Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) shall be implemented on voluntary basis from 1st April, 2015 and mandatorily from 1st April, 2016. Separate roadmaps have been prescribed for implementation of Ind AS to Banking, Insurance companies and NBFCs respectively.

### **CARVE OUTS/INS IN IND AS (RTP May 2024)**

- Carve out of IFRS*
- Various terminology related changes have been made to make it consistent with the terminology used in law, e.g., 'statement of profit and loss' in place of 'statement of comprehensive income' and 'balance sheet' in place of 'statement of financial position'.
  - Removal of options in accounting principles and practices in Ind AS vis-a-vis IFRS, have been made to maintain consistency and comparability of the financial statements to be prepared by following Ind AS. However, these changes will not result into carve outs.
  - 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. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as 'Carve-outs'.
  - Additional guidance given in Ind AS over and above what is given in IFRS, is termed as 'Carve in'.

### **ROADMAP FOR IMPLEMENTATION OF INDAS:**

#### **For Companies other than Banks, NBFCs and Insurance Companies**

**Phase I:** 1st April 2015 or thereafter (with Comparatives): Voluntary Basis for any company (other than Banks, NBFCs and Insurance companies) and its holding, subsidiary, Joint venture (JV) or Associate Company.

#### **1st April 2016: Mandatory Basis**

- (a) Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth of INR 500 crore or more;
- (b) Unlisted Companies having net worth of INR 500 crore or more;
- (c) Parent, Subsidiary, Associate and JV of above.

#### **Phase II: 1st April 2017: Mandatory Basis**

- (a) All companies which are listed/or in process of listing on Stock Exchanges in India or outside India not covered in Phase I (other than companies listed on SME Exchanges);
- (b) Unlisted companies having net worth of INR 250 crore or more but less than INR 500 crore;
- (c) Parent, Subsidiary, Associate and JV of above.

#### **Special Points to Consider:-**

- Companies listed on SME exchange are not required to apply Ind AS. Such companies shall continue to apply existing ASs unless they choose otherwise.
- Once Ind AS are applicable, an entity shall be required to follow the Ind AS for all the subsequent financial statements i.e. there is no looking back once the Ind AS are adopted by companies.
- Companies not covered by the above roadmap shall continue to apply Accounting Standards notified in Companies (Accounting Standards) Rules, 2021.

**For Non-Banking Financial Companies (NBFCs), Scheduled Commercial Banks (Excluding RRBs) and Insurers/Insurance Companies**

<b>Non-Banking Financial Companies (NBFCs)</b>	
<b>Phase I:</b>	<b>From 1st April, 2018 (with comparatives)</b>
	NBFCs (whether listed or unlisted) having net worth INR 500 crores or more
	Holding, Subsidiary, JV & Associate companies of above NBFC other than those already covered under corporate roadmap shall also apply from said date
<b>Phase II:</b>	<b>From 1st April, 2019 (with comparatives)</b>
	NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth less than INR 500 crores
	NBFCs that are unlisted having net worth INR 250 crores or more but less than INR 500 crores
	Holding, Subsidiary, JV and Associate companies of above companies other than those already covered under corporate roadmap shall also apply Ind AS from the said date.
<ul style="list-style-type: none"> <li>• Applicable to both Consolidated and Individual Financial Statements</li> <li>• NBFC having net worth below INR 250 crores and not covered under the above provisions shall continue to apply ASs specified in Annexure to Companies (Accounting Standards) Rules, 2006.</li> <li>• Adoption of Ind AS is allowed only when required as per the roadmap</li> <li>• Voluntary adoption of Ind AS is not allowed.</li> </ul>	
<b>Scheduled Commercial banks (excluding RRBs)</b>	
<ul style="list-style-type: none"> <li>➤ Scheduled Commercial Banks (SCBs) excluding Regional Rural Banks (RRBs) were initially required to implement Ind AS from 1 April 2018. However, RBI (Reserve Bank of India) vide a press release dated 5 April 2018, deferred the implementation of Ind AS by one year i.e. to be effective from 1 April 2019 instead of 1 April 2018.</li> <li>➤ Further, the RBI through a notification dated 22 March 2019, deferred the Ind AS implementation till further notice. Urban Cooperative banks (UCBs) and Regional Rural banks (RRBs) are not required to apply Ind AS.</li> </ul>	
<b>Insurers/Insurance companies</b>	
<ul style="list-style-type: none"> <li>➤ MCA had outlined the road map for implementation of Ind AS by insurers/insurance companies from 1 April 2018.</li> <li>➤ IRDAI (Insurance Regulatory and Development Authority of India) deferred the implementation of Ind AS in the insurance sector in India for a period of two years whereby the effective date was deferred to 1st April 2020.</li> </ul> <p>IRDAI, vide circular dated 21 January 2020, has deferred <u>implementation of Ind AS in the insurance sector till further notice.</u></p>	