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# INTRODUCTION TO ACCOUNTING STANDARDS

**Quote:**

"If you are not willing to risk the usual, you will have to settle for the ordinary."

## 1. INTRODUCTION ON ACCOUNTING STANDARDS

1) What is GAAP?

It's a *Generally Accepted Accounting Principles*

2) In India, GAAP = Accounting Standards (AS) and Indian Accounting Standards (IndAS).

3) Accounting Standards = Policy Documents Covering -  
Recognition, Measurement, Presentation & Disclosure in Financial Statements

4) Why there is a need to Accounting Standards?

- To Provide useful Information to Investors & Other Stakeholders.
- AS reduces the alternate treatments in Financial Statement. So that Comparability of F/S can be easy.
- Requirement of Additional Disclosures to understand the Financial Statement better.
- To reduce the scope of Creative A/c (Twisting the Accounting Policies to produce Favorable Financial Statements)

5)

ICAI (Leadership Role in AS)



Accounting Standards Board (1977)



ASB = Members of ICAI + Representatives of Different Industries + Regulators (NFRA) + Govt  
Department



ASB Submits the draft to NFRA



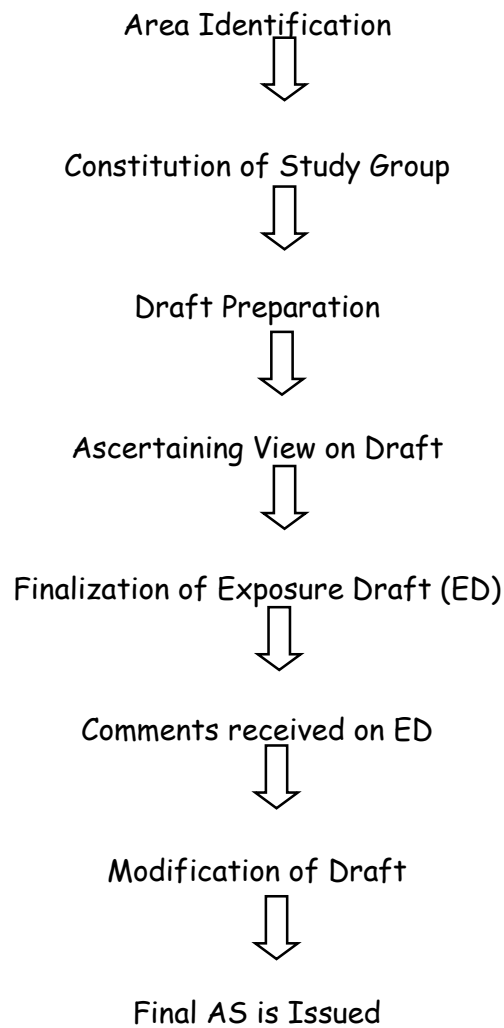
NFRA recommend the AS to MCA



MCA Finally issued the AS for Companies

ASB Considers IAS/IFRS; Applicable Laws; customs & Business environment in India while Formulating any A/c Treatment.

6) Standards Setting Process: -



7) There are total 27 Accounting Standards effective and applicable at present.

## 2. OVERVIEW OF ACCOUNTING STANDARDS

### Enterprises to which the accounting standards apply?

- 1) AS applies to all enterprises (corporate, non-corporate, or other forms like LLP, Cooperative societies)
- 2) AS applies to Profit as well as Non-profit entities.
- 3) However, any organization which is solely carrying such activities which are not at all commercial, industrial or business nature may not apply AS.
- 4) Even if a very small proportion of the activities of an enterprise were considered to be commercial, industrial or business in nature, the Accounting Standards would apply.

### 2.1 ACCOUNTING STANDARDS FOR NON-COMPANY ENTITIES



#### Level I Entities:

Non-company entities which fall in any one of the following categories **at the end of relevant accounting year** are called as Level I entities:

- Entities Whose **Securities are listed** or are in process of listing on any stock exchange, whether in India or outside India.
- **Banks** (Including Co-Operative Banks), financial Institutions or entities carrying on insurance Business
- All commercial, industrial and business reporting entities whose **turnover is greater than 250 crores in the immediately preceding accounting period**. Here other income is to be ignored in calculation of turnover.
- All commercial, industrial and business reporting entities whose **borrowings including public deposits in excess of 50 crores at any time** during the immediately preceding accounting year.
- **Holding and Subsidiary** entities of any of the above.

#### Level II Entities:

Non-company entities which are not Level I entities but fall in any one or more of the following categories are Level II entities.

- All industrial, commercial and business reporting entities whose **turnover exceeds rupees 50 crores but doesn't exceed rupees 250 crores** in the immediately preceding accounting year.

- All commercial, industrial and business reporting entities whose borrowings including public deposits are above 10 crore but doesn't exceed 50 crores at any time during the immediately preceding accounting year.
- Holding and Subsidiary entities of any one of the above.

### Level-3 entities:

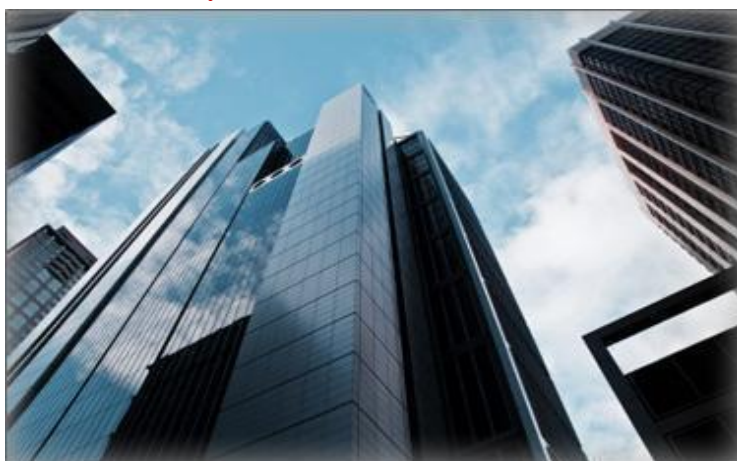
Non-company entities which are not Level I and Level II entities but fall in any one or more of the following categories are Level III entities.

- All industrial, commercial and business reporting entities whose turnover exceeds rupees 10 crores but doesn't exceed rupees 50 crores in the immediately preceding accounting year.
- All commercial, industrial and business reporting entities whose borrowings including public deposits are above 2 crore but doesn't exceed 10 crores at any time during the immediately preceding accounting year.
- Holding and Subsidiary entities of any of the above.

### Level-4 entities:

Non-Company entities which are not covered under Level I, Level II and Level III are considered as Level IV entities.

## 2.2 ACCOUNTING STANDARDS FOR CORPORATE ENTITIES: (Companies AS Rules, 2006)



### SMALL AND MEDIUM SIZED COMPANIES (SMEs): a company -

- 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;
- which is not a bank, financial institution or an insurance company;
- Entities whose turnover does not exceed Rs. 250 crores in the immediately preceding accounting period. Here other income is to be ignored in calculation of turnover.
- Entities whose borrowings including public deposits are not in excess of Rs. 50 crores at any time during the immediately preceding accounting year.

- Which is not a holding or subsidiary company of a company which is not a small and medium sized Company.

**NON SMCs:**

Companies not falling within the definition of SMC are considered as Non-SMCs.

**NEED FOR CONVERGENCE TOWARDS GLOBAL STANDARDS i.e. IFRS**

Raising Funds from International Market	Comparability of Financial Statements	Uniformity and Transparency	Global Investments
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**Technique I - Adoption 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.

**Technique II - Convergence Process:** Convergence means that the country will develop high quality, compatible accounting standards and there would be **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. Ind AS are almost similar to IFRS but with few carve outs so as to make them suitable for Indian Environment.

**What are Carve Outs & Carve Ins in INDAS ?**

**Carve Outs:** Certain changes have been made in Ind AS 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'.

Making Changes in A/c Treatment given in IFRA due to Change in Economic Environment.

**Carve Ins:** Additional guidance given in Ind AS over and above IFRS

### 3. ROADMAP FOR IMPLEMENTATION OF INDIAN ACCOUNTING STANDARDS?

#### APPLICABILITY OF IND AS FOR COMPANIES (OTHER THAN BANKS, NBFCs, INSURANCE COMPANIES)

##### Phase-I: Obligation to Comply with Ind AS from 1st April, 2016

In accordance with clause (ii) of sub- rule (1) of Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015, the following companies shall comply with Ind AS w.e.f. April 2016:

- (a) Companies listed/in process of listing (Except companies listed on SME Exchanges) on Stock Exchanges in India or Outside India having net worth of ₹500 crore or more;
- (b) Unlisted Companies having net worth  $\geq$  ₹500crore;
- (c) Holding (Parent), subsidiary, joint venture or associate companies of above.

COMPLIANCE	CURRENT FY	COMPARATIVE PERIOD	TRANSITION DATE FOR OPENING IND AS BS
Voluntary Compliance (Optional)	FY 15-16 i.e. year ending 31 <sup>st</sup> March 2016	FY 14-15 i.e. year ending 31 <sup>st</sup> March 2015	01/04/2014
Mandatory Compliance	FY 16-17 i.e. year ending 31 <sup>st</sup> March 2017	FY 15-16 i.e. year ending 31 <sup>st</sup> March 2016	01/04/2015

##### Phase-II: Mandatory Compliance of Ind AS from 1st April, 2017

Clause (iii) of sub- rule (1) of Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015 states that the following companies shall comply with Ind AS for the accounting periods beginning on or after 1st April, 2017:

- (a) Companies listed/in process of listing (Except companies listed on SME Exchanges) on Stock Exchanges in India or Outside India having net worth of less than Rs. 500crore;
- (b) Unlisted companies having net worth of  $\geq$  Rs.250 crore but  $<$  Rs.500crore;
- (c) Holding, Subsidiary, Associate and J.V. of Above.

COMPLIANCE	IND AS CURRENT FY	IND AS COMPARATIVE PERIOD	TRANSITION DATE FOR OPENING INDAS BS
Voluntary Compliance (Optional)	FY 16-17 i.e. year ending 31 <sup>st</sup> March 2017	FY 15-16 i.e. year ending 31 <sup>st</sup> March 2016	01/04/2015
Mandatory Compliance	FY 17-18 i.e. year ending 31 <sup>st</sup> March 2018	FY 16-17 i.e. year ending 31 <sup>st</sup> March 2017	01/04/2016

**Note:**

- Ind AS once required to be complied shall apply to both standalone financial statements and consolidated financial statements.
- Overseas subsidiary, associate, joint venture and other similar entities of an Indian company may prepare its standalone financial statements in accordance with the requirements of the specific jurisdiction, provided that such Indian company shall prepare its consolidated financial statements in accordance with Ind AS either voluntarily or mandatorily if it meets the criteria.
- Indian company which is a subsidiary, associate, joint venture and other similar entities of a foreign company shall prepare its financial statements in accordance with the Ind AS either voluntarily or mandatorily if it meets the criteria. (based on Net Worth of Individual Financial Statements of Subsidiary).
- Listing Status shall be checked only in First Year of INDAS Financial Statements.
- Subsidiary/Associates/JV status shall be checked only in the First Year of INDAS Financial Statements.

## IND AS FOR BANK, INSURANCE COMPANIES AND NBFCs

S.No.	Entities	For Accounting Period Beg. Frm 1 <sup>st</sup> April 2018 onwards	For Accounting Period Beg. Frm 1 <sup>st</sup> April 2019 onwards	For Accounting Period Beg. Frm 1 <sup>st</sup> April 2021 onwards
1	All India Term lending refinancing Institutions (EXIM, NABARD, SIDBI)	Mandatory	-	-
2	Non Banking Financial Institutions (NBFCs)	Having Net Worth of Rs. 500 Cr. or More  Holding, Subsidiary, JV or Associates of the above	NBFCs whose equity/debt instruments are listed or in process of listing and having Net Worth Less than Rs. 500 Cr.  Unlisted NBFCs, Having Net worth of Rs. 250 Cr. or more but less than Rs. 500 Cr.  Holding, Subsidiary, JV or Associates of the above	-
3	Insurance Companies	IRDAI, vide circular dated 21 January 2020, has deferred implementation of Ind AS in the insurance sector till further notice.		
4	BANKS (Excluding RRBs)	Implementation of IndAS is deferred till further Notice by RBI vide Notification dated 22/03/19		

**Notes:**

1. Voluntary adoption is not permitted for BANKs/NBFCs/INSURERS
2. Entities not covered in the roadmap shall continue to apply Accounting Standards at present.

## 4. MCQs from ICAI Resources

**Q1. Phase I of Ind AS was applicable to:**

- (a) All listed companies in India or outside India
- (b) Companies with turnover INR 500 crores or more
- (c) Companies with net worth INR 500 crores or more.
- (d) Companies with turnover INR 250 crores or more

**Q2. IASB stands for**

- (a) International Accounting Standards Bureau
- (b) International Advisory Standards Board
- (c) International Accounting Standard Board
- (d) International Accounting System Board

**Q3. IFRS stands for**

- (a) International Financial Reporting System
- (b) International Finance Reporting Standard
- (c) International Financial Reporting Standard.
- (d) International Financial Reserve Standard

**Q4. Additional guidance given in Ind AS over and above what is given in IFRS are called**

- (a) Carve-outs.
- (b) Carve-ins.
- (c) Carve clarifications.
- (d) Clarifications

**Q5. Non - cooperative entities which are not Non-corporate entities which are not Level I entities whose turnover (excluding other income) exceeds rupees exceed rupees----- but does not two-fifty crores in the immediately preceding accounting year classified as Level II entities.**

- (a) five crores.
- (b) two crores.
- (c) fifty crores.
- (d) ten crores.

**Q6. All non-corporate entities engaged in commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds 250 rupees in the immediately preceding accounting year, are classified as:**

- (a) Level I entities.
- (b) Level II entities.
- (c) Level III entities.
- (d) Level IV entities

**Q7. The following Accounting Standard is not applicable to Non-corporate Entities falling in level II in its entirety**

- (a) AS 10.
- (b) AS 17.
- (c) AS 2.
- (d) AS 13.

**Q8. Small and Medium Sized Company (SMC) means, a company**

- (a) which may be a bank, financial institution or an insurance company.
- (b) whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;
- (c) whose turnover (excluding other income) does not exceed rupees fifty crores in the immediately preceding accounting year;
- (d) whose turnover (excluding other income) does not exceed rupees five hundred crores in the immediately preceding accounting year;

**Q9. All non-corporate entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees two crores but does not exceed rupees ten crores at any time during the immediately preceding accounting year.**

- (a) Level III entities.
- (b) Level IV entities.
- (c) Level II entities.
- (d) Level I entities.

Correct Answer								
Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9
a	c	c	b	c	b	b	b	c