2.3. ACCOUNTING STANDARDS

2.3.1. Introduction

The uniform, definite and universally accepted accounting rules developed by International Accounting Standards Committee (IASC) are known as Accounting Standard. It was felt that there were different accounting concepts, conventions, customs, traditions and rules prevailing in different nations leading to misunderstanding, uncertainty and often resulting in scandal. Confusion prevailed at the national level also. Accounting terminology was not standardized. It was left to the users of accounting to interpret the accounting terms suiting their interest. It was therefore, the urgent need to develop universally accepted and internationally standardized accounting terminology, commonly known as **Accounting standard**. Introduction of Accounting standard was necessary to prevent financial scandals and business failures.

Accounting Standards are defined as the policy documents issued by a recognized expert accounting body relating to various aspects of measurement, treatment and disclosure of accounting transactions and events.

2.3.2. Characteristics of Accounting Standards

The characteristics of accounting standards are as follows:

1) Accounting standards **determine the norm of accounting policy** and transactions.
2) Accounting standards **determine the most suitable method** from the available methods for solving one or more accounting problems.
3) Accounting standards **determine those limitations** in which Accountant **perform his work.**
4) Accounting standards **provide the information** to different parties using the financial statements.
5) Accounting standards **provide uniformity in accounting work.** It removes the effect from adopting different policies and transactions.

2.3.3. Scope of Accounting Standards

1) Efforts will be made to issue Accounting Standards which are in conformity with the provisions of the applicable laws, customs, usages and business environment in India. However, if a particular Accounting Standard is found to be not in conformity with law, the provisions of the said law will prevail and the financial statements should be prepared in conformity with such law.
2) The Accounting Standards by their very nature cannot and do not override the local regulations which govern the preparation and presentation of financial statements in the country. However, the ICAI will determine the extent of disclosure to be made in financial statements and the auditor's report thereon. Such disclosure may be by way of appropriate note explaining the treatment of particular items. Such explanatory notes will be only in the nature of clarification and therefore need be treated as adverse comments on the related financial statements.
3) The Accounting Standards are intended to apply only to items which are material. Any limitations with regard to the applicability of a specific Accounting Standard will be made clear by the ICAI from time to time. The date from which a particular Standard will come into effect, as well as the class of enterprises to which it will apply, will also be specified by the ICAI. However, no standard will have retroactive application, unless otherwise stated.

2.3.4. Objectives/Needs of Accounting Standard

The main objective of accounting standards is to harmonize the diverse accounting policies and practices at present in use in India. However, harmonization does not mean that accounting standards should become very rigid. In fact, harmonization of accounting standards does permit flexibility to make the necessary adjustments to suit their purpose.

Globalization of business, promotion of external trade, internationalization of financing institutions, emergence of UNO and IMF, etc., necessitated the development of International Accounting standard. The needs of Accounting Standards are as follows:

1) **Uniform Standard Presentation of Accounts:** Financial Accounting as we know is not very exact science. To some extent it is the subject of interpretation. The presence of different concepts, conventions, customs, traditions and practices created confusion and checked free, fair and smooth flow of financial activities. In necessitated uniformity in the concepts, conventions and practices. The emergence of International Accounting Standard was a remedy.

2) **Removal of Ambiguity:** Accounting is the vital part of business activities. Certain accounting terms and practices are ambiguous and confusing, just as valuation of stock, items of current liabilities, methods of depreciation, etc. Accounting standards are needed to remove ambiguity.

3) **Prevention of Accounting Scandals:** Ambiguity, confusion and inexactness in the meaning of accounting terminology generates accounting scandals leading to the failure of the business. **For example,** the term price may mean as cost price, sale price, purchase price, printed price, trade price and market price, etc. Everyone picks up the meaning of his own choice. As such standardization of accounting terminology is necessary for preventing misuse of accounting terminology.

4) **Globalization of Business:** Business, these days is global entity. We have got many multinational corporations working in different countries with different currency, rules and practices. If every country is allowed to follow its own practice, external trade cannot flourish. A lot of confusion will be created. The smooth and fair flow of the global business needs international accounting standard.

5) **Internationalization of Financial Institutions:** These days Banks and Financial institutions have assumed global status. Their activities are not restricted within their countries alone. The successful implementation of these activities needed that financial accounting must be standardized internationally.

2.3.5. Benefits of Accounting Standards

The benefits of accounting standards are as follows:

1) **Reduction in Variations:** Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

2) **Disclosure Beyond that Required by Law:** There are certain areas where important information is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

3) **Facilitates Comparison:** 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 practiced in different countries.

2.4. ACCOUNTING STANDARDS IN INDIA

2.4.1. Accounting Standards Board of India

The Institute of Chartered Accountants of India, recognizing the need to harmonize the diverse accounting policies and practices at present in use in India, constituted an Accounting Standards Board (ASB) on April 21, 1977.

The main function of the Accounting Standard Board is to formulate Accounting Standards so that such standards will be established by Council of Institute of Chartered Accountant of India.

2.4.2. Procedure for Issuing Accounting Standards

The following procedure will be adopted for formulating Accounting Standards:

Step 1: To determine the broad areas in which accounting standards need to be formulated and the priority in regard to the selection thereof.

Step 2: To hold a dialogue with the representatives of the government, public sector undertakings, industry and other organizations for ascertaining their views.

Step 3: On the basis of the work of the study groups and the dialogue with the representatives, to prepare and issue the exposure of draft of the proposed standard for comments by members of the Institute and the public at large.

Step 4: To finalize the draft of the proposed standard after taking into consideration the comments received.

Step 5: To submit the final draft of the proposed standard to the Council of the Institute.

The Council of the Institute will consider the final draft of the proposed standard, and if found necessary, modify the same in consultation with ASB. The accounting standard on the relevant subject will then be issued under the authority of the Council.

2.4.3. Objectives and Functions of the Accounting Standards Board of India

The following are the objectives of the Accounting Standards Board:

1) To conceive of and suggest areas in which Accounting Standards need to be developed.

2) To formulate Accounting Standards with a view to assisting the Council of the ICAI in evolving and establishing Accounting Standards in India.
3) To examine how far the relevant International Accounting Standard/International Financial Reporting Standard can be adapted while formulating the Accounting Standard and to adapt the same.
4) To review, at regular intervals, the Accounting Standards from the point of view of acceptance or changed conditions, and, if necessary, revise the same.
5) To provide, from time to time, interpretations and guidance on Accounting Standards.
6) To carry such other functions relating to Accounting Standards.

2.4.4. Accounting Standards issued by ICAI

Following are the standards issued by Institute of Chartered Accountant of India.

No.	Title	Mandatory from accounting period beginning on or after
AS 1	Disclosure of Accounting Policies.	1.4.1991
AS 2	Valuation of Inventories.	1.4.1999
AS 3 (Revised)	Cash Flow Statements.	1.4.2000
AS 4 (Revised)	Contingencies and Events occurring after Balance Sheet Date.	1.4.1995
AS 5 (Revised)	Prior Period and Extraordinary Items and Changes in Accounting Policies.	1.4.1996
AS 6 (Revised)	Depreciation Accounting.	1.4.1995
AS 7	Accounting for Construction Contracts.	1.4.2003
AS 8	Accounting for Research and Developments.	1.4.1991
AS 9	Revenue Recognition.	1.4.1991
AS 10	Accounting for Fixed Assets.	1.4.1991
AS 11 (Revised 2003)	Accounting for the Effects of Changes in Foreign Exchange Rates.	1.4.2004
AS 12	Accounting for Government Grants.	1.4.1995
AS 13	Accounting for Investments.	1.4.1995
AS 14	Accounting for Amalgamations.	1.4.1994
AS 15	Accounting for Retirement Benefits in Employer's Financial Statements.	1.4.1995
AS 16	Borrowing Costs.	1.4.2000
AS 17	Segment Reporting.	1.4.2001
AS 18	Related Party Disclosures.	1.4.2001
AS 19	Leases.	1.4.2001
AS 20	Earnings per share.	1.4.2001
AS 21	Consolidated Financial Statements.	1.4.2001
AS 22	Accounting for Taxes on Income.	1.4.2001
AS 23	Accounting for Investments in Consolidated Financial Statements.	1.4.2002
AS 24	Discontinuing Operations.	1.4.2004
AS 25	Interim Financial Reporting.	1.4.2002

AS 26	Intangible Assets.	1.4.2003
AS 27	Financial Reporting of Interest in Joint Ventures.	1.4.2002
AS 28	Impairment of Assets.	1.4.2004
AS 29	Provisions, Contingent Liabilities & Contingent Asset.	1.4.2004
AS 30	Financial Instruments : Recognition and Measurements	1.4.2009
AS 31	Financial Instruments : Presentation	1.4.2009
AS 32	Financial Instruments : Disclosure	1.4.2009

Notes

1) AS 3 and AS 17 are mandatory for those enterprises whose equity or debt securities are listed on a recognized stock exchange in India or enterprises who are in the process of issuing equity or debts securities that will be listed on a recognized stock exchange in India and all commercial, industrial businesses whose turnover for the accounting period is more than ₹ 50 Crore.
2) AS 20 are mandatory for those enterprises whose equity shares or potential equity shares are listed on a recognized stock exchange in India.
3) AS 21 is mandatory if an enterprise presents consolidated financial statements. This accounting standard does not make it mandatory to consolidate the financial statement for an enterprise. But the enterprises, which is presenting a consolidated financial statement shall prepare in accordance with AS 21.
4) AS 22 comes into effect in respect of accounting periods commencing on or after 1.4.2001. It is mandatory in following cases:
   i) All the enterprises whose equity or debt securities are listed on a recognized stock exchange in India and enterprises which are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India;
   ii) All the enterprises of a group, if a parent presents consolidated financial statements and accounting standard is mandatory in nature in respect of any of the enterprises of that group in terms of (i) above;
   iii) All the accounting period commencing on or after 1.4.2002, in respect of companies not covered by (i) or (ii) above.
   iv) All the accounting periods commencing from 1.4.2003, in respect of all other enterprises.

2.4.5. Compliance with the Accounting Standards

1) The Accounting Standards will be mandatory from the respective date(s) mentioned in the Accounting Standard(s). The mandatory status of an Accounting Standard implies that while discharging their attest (confirmed) functions, it will be the duty of the members of the Institute to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from

the Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviation.

2) Ensuring compliance with the Accounting Standards while preparing the financial statements is the responsibility of the management of the enterprise. Statutes governing certain enterprises require of the enterprises that the financial statements should be prepared in compliance with the Accounting Standards. For **example**, the Companies Act, 1956 (Section 211), and the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000.

3) Financial Statements cannot be described as complying with the Accounting Standards unless they comply with all the requirements of each applicable Standard.