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Introduction to Accounting Standards

Meaning 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, treatment, presentation and disclosure of accounting transactions in the financial statements.

Objectives of Accounting Standards

Accounting as a 'language of business' communicates the financial results of enterprise tovarious 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 state of affairs. In order to ensure transparency, consistency, comparability, adequacy and reliability of financial reporting, it is essential to standardize the accounting principles and policies. Accounting Standards provide framework and standard accounting policies so that the financial statements of different enterprises become comparable. The Accounting Standards reduce the accounting alternatives in the preparation of rational financial statements thereby ensuring comparability of financial statements of different enterprises.

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 these financial statements which helps the users to take prudent and informed business decisions. The objective of Accounting Standards is to standardize diverse accounting policies with a view to eliminate,

to the maximum possible extent,(i) the non-comparability of financial statements and thereby improving the reliability of financial statements, and

(ii) to provide a set of standard accounting policies, valuation norms and disclosure requirements. 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 the International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs) while framing Indian Accounting Standards (ASs) and try to integrate them, in the light of the applicable laws, customs, usages and business environment in the country. The concept of Accounting Standards and the standards setting process in India has already been discussed, in detail, in IPCC Accounting Study Material – Chapter 1

Benefits and Limitations

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.

(ii) (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.

(iii) Attains Uniformity in Accounting. ...

(iv) Improves Reliability of Financial Statements. ...

(v) Prevents Frauds and Accounting Manipulations. ...

(vi) Assists Auditors. ...

(vii) Comparability. ...

(viii) Determining Managerial Accountability.

- **Limitations of setting of accounting standards**
  Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.
- There may be a trend towards rigidity and away from flexibility in applying the accounting standards
- Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.
- Recording only monetary items.
- Recommendation of alternative methods.
- Time value of money.
- The tendency for secret reserves.
- Allocation of problems.
- Restrain accounting principles.
- Maintaining secrecy.
- Recording of past events.

How Many Accounting Standards?

The council of the Institute of Chartered Accountants of India has, so far, issued thirty two Accounting Standards. However, AS 8 on 'Accounting for Research and Development' has-been withdrawn consequent to the issuance of AS 26 on 'Intangible Assets'. Thus effectively, there are 32 Accounting Standards at present. 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

Applicability of Accounting Standards

For the purpose of compliance of the accounting Standards, the ICAI had earlier issued an announcement on 'Criteria for Classification of Entities and Applicability of Accounting Standards'. As per the announcement, entities were classified into three levels. Level Identities and Level III entities as per the said Announcement were considered to be Small and Medium Entities (SMEs).However, when the accounting standards were notified by the Central Government in consultation with the National Advisory Committee on Accounting Standards, the Central Government also issued the 'Criteria for Classification of Entities and Applicability of Accounting Standards' for the companies. It is pertinent to note that the accounting standards notified by the government were mandatory for the companies since it was notified in pursuant to sections 211(3C) of the Companies Act, 1956.According to the 'Criteria for Classification of Entities and Applicability of Accounting Standards' as issued by the Government, there are two levels, namely, Small and Medium sized Companies (SMCs) as defined in the Companies (Accounting Standards) Rules, 2006and companies other than SMCs. Non-SMCs are required to comply with all the Accounting Standards in their entirety, while certain exemptions/ relaxations have been given to SMCs.Consequent to certain differences in the criteria for classification of the levels of entities as issued by the ICAI and as notified by the Central Government for companies, the Accounting Standard Board of the ICAI decided to revise its ‘‘Criteria for Classification of Entities and Applicability of Accounting Standards’ and make the same applicable only to non-corporate entities. Though the classification criteria and applicability of accounting standards has been largely aligned with the criteria prescribed for corporate entities, it was decided to continue with the three levels of entities for non-corporate entities vis-à-vis two levels prescribed for corporate entities as per the government notification. ‘Criteria for Classification of Entities and Applicability of Accounting Standards ‘for corporate entities and non-corporate entities have been explained in the coming paragraphs. No relaxation was given to Level II and III enterprises in respect to recognition and measurement principles. Relaxations were provided with regard to disclosure requirements

International Financial Reporting Standards (IFRS) are a set of accounting standards that govern how particular types of transactions and events should be reported in financial statements. They were developed and are maintained by the International Accounting Standards Board (IASB). The IASB’s objective is that the standards be applied on a globally consistent basis to provide investors and other users of financial statements with the ability to compare the financial performance of publicly listed companies on a like-for-like basis with their international peers. IFRS are now used by more than 100 countries, including the European Union and by more than two-thirds of the G20. IFRS are sometimes confused with International Accounting Standards (IAS), which are older standards that IFRS replaced in 2000.

In November 2008, the U.S. Securities and Exchange Commission (SEC) issued a proposed “Roadmap” for a possible path to a single set of globally accepted accounting standards. The roadmap generated significant interest and comment from investors, issuers, accounting firms, regulators, and others regarding factors that the SEC should consider as it moved forward in its evaluation of whether and how to incorporate IFRS into the financial reporting system for U.S. issuers.

The SEC issued a statement in support of convergence and global accounting standards in February 2010. It said: “The Commission continues to believe that a single set of high-quality globally accepted accounting standards will benefit U.S.

investors and that this goal is consistent with our mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. As a step toward this goal, we continue to encourage the convergence of U.S. GAAP [generally accepted accounting principles] and IFRS and expect that the differences will become fewer and narrower, over time, as a result of the convergence project."

The SEC then sponsored a series of roundtables in the summer of 2011 to help determine whether incorporating IFRS into the U.S. financial reporting system was in the best interest of U.S. investors and markets. At that time, there was limited discussion about the possible methods of implementing any incorporation, i.e., through the wholesale adoption of IFRS as issued by the IASB, or by regional or national incorporation of IFRS through convergence or endorsement or some combination. The discussion centered mostly on matters regarding how investors use financial statements, investor education, and who should interpret the principles-based standards.

There was, however, considerable discussion regarding the role that various stakeholders, such as regulators and public accounting firms, play in interpreting principles-based standards. And rather than leaving the interpretation of the standards to these stakeholders, perhaps the IASB should fund and support a more robust interpretation effort.

But the momentum of the issue slowed following the release of a 2012 SEC Final Staff Report (*Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers*) that questioned the funding of the IASB and the timeliness of responses to widespread accounting issues by the IFRS Interpretations Committee. The report also said adoption of IFRS would be costly for U.S. public companies.

The SEC emphasized in the report, however, that its publication did not imply that the SEC had made any policy decision as to whether IFRS should be incorporated into the financial reporting system for U.S. issuers, or how any such incorporation should be implemented. It added that additional analysis and consideration of the threshold policy question—the question of whether transitioning to IFRS is in the best interests of the U.S. securities markets generally and U.S. investors specifically—is necessary before any decision by the SEC can occur.

SEC noted that feedback it received as it formulated the Work Plan indicated a large majority of constituents opposed a requirement to adopt the standards of the IASB outright. However, the staff said there is substantial support for exploring other methods of incorporating IFRS into U.S. GAAP and focused its efforts accordingly.

International Financial Reporting Standards (IFRS) were created to bring consistency and integrity to accounting standards and practices, regardless of the company or the country.

They were issued by the London-based Accounting Standards Board (IASB) and address record keeping, account reporting, and other aspects of financial reporting.

The IFRS system replaced the International Accounting Standards (IAS) in 2001.

IFRS fosters greater corporate transparency.

IFRS is not used by all countries; for example, the U.S. uses generally accepted accounting principles (GAAP).

IFRS vs. GAAP

Public companies in the U.S. are required to use a rival system, the generally accepted accounting principles (GAAP). The GAAP standards were developed by the Financial Standards Accounting Board (FSAB) and the Governmental Accounting Standards Board (GASB).

The Securities and Exchange Commission (SEC) has said it won't switch to International Financial Reporting Standards but will continue reviewing a proposal to allow IFRS information to supplement U.S. financial filings.[3]

There are differences between IFRS and GAAP reporting. For example, IFRS is not as strict in defining revenue and allows companies to report revenue sooner. A balance sheet using this system might show a higher stream of revenue than a GAAP version of the same balance sheet.

IFRS also has different requirements for reporting expenses. For example, if a company is spending money on development or on investment for the future, it doesn't necessarily have to be reported as an expense. It can be capitalized instead.

History of IFRS

IFRS originated in the European Union with the intention of making business affairs and accounts accessible across the continent. It was quickly adopted as a common accounting language.

Although the U.S. and some other countries don't use IFRS, currently 167 jurisdictions do, making IFRS the most-used set of standards globally.[1]

Who Uses IFRS?

IFRS is required to be used by public companies based in 167 jurisdictions, including all of the nations in the European Union as well as Canada, India, Russia, South Korea, South Africa, and Chile. The U.S. and China each have their own systems.

How Does IFRS Differ From GAAP?

The two systems have the same goal: clarity and honesty in financial reporting by publicly-traded companies.

IFRS was designed as a standards-based approach that could be used internationally. GAAP is a rules-based system used primarily in the U.S.

Although most of the world uses IFRS standards, it is still not part of the U.S. financial accounting world. The SEC continues to review switching to the IFRS but has yet to do so.

Several methodological differences exist between the two systems. For instance, GAAP allows a company to use either of two inventory cost methods: First in, First out (FIFO) or Last in, First out (LIFO). LIFO, however, is banned under IFRS.

Why Is IFRS Important?

IFRS fosters transparency and trust in the global financial markets and the companies that list their shares on them. If such standards did not exist, investors would be more reluctant to believe the financial statements and other information presented to them by companies. Without that trust, we might see fewer transactions and a less robust economy.

IFRS also helps investors analyze companies by making it easier to perform “apples to apples” comparisons between one company and another and for fundamental analysis of a company's performance.

The Bottom Line

The International Financial Reporting Standards (IFRS) are a set of accounting rules for public companies with the goal of making company financial statements consistent, transparent, and easily comparable around the world. This helps for auditing, tax purposes, and investing.

Standard IFRS Requirements

IFRS covers a wide range of accounting activities. There are certain aspects of business practice for which IFRS set mandatory rules.

Statement of Financial Position: This is the balance sheet. IFRS influences the ways in which the components of a balance sheet are reported.

Statement of Comprehensive Income: This can take the form of one statement or be separated into a profit and loss statement and a statement of other income, including property and equipment.

Statement of Changes in Equity: Also known as a statement of retained earnings, this documents the company's change in earnings or profit for the given financial period.

Statement of Cash Flows: This report summarizes the company's financial transactions in the given period, separating cash flow into operations, investing, and financing.

In addition to these basic reports, a company must give a summary of its accounting policies. The full report is often seen side by side with the previous report to show the changes in profit and loss.

A parent company must create separate account reports for each of its subsidiary companies.

What are Indian Accounting Standards?

As per popular definitions, Indian accounting standards are nothing but guidelines to be followed in the accounting system. It means rules & regulations that are to be followed while recording accounting & financial transactions. It governs the manner in which financial statements are prepared & presented in a company.

In India, Institute of Chartered Accountants formulate & issue accounting standards. These standards are followed by accountants of all the companies registered in India. As we have mentioned before, these accounting standards help in preparation and presentation of financial statements.

While you may have understood the base objective of Indian accounting standards, let us get into the depth of these objectives and understand what kind of underlying objectives are there.

Core Objectives of the Indian Accounting Standards

There is always a reason for any mission. Similarly, there are certain objectives for having accounting standards. Let us take a look at the objectives of accounting standards so that we understand in depth the deeper aim of it.

The main objective of Indian accounting standards is to bring in more transparency of annual financial statements in company accounts. Ensure companies in India adopt these standards to implement internationally recognized best practices.

One systematic, single accounting system common for all the companies. Cutting out confusions and frauds. The Indian accounting standards are so simplified that they can be understood worldwide, globally.

There are several global requirements and the Indian accounting standards are designed to match the global requirements. To increase the reliability of the financial statements.

Benefits of Indian Accounting Standards

Provides Reliability to Financial Statements

The financial statements are a significant measure of gaining data with respect to organizations. Financial backers and various partners rely upon these assertions for getting data. These individuals take significant choices based on this information as it were.

It is in this way vital that these financial statements are valid and reasonable. Bookkeeping principles completely oversee these financial reports. It is guaranteed by accounting principles that these assertions are genuine and reliable.

Uniformity in Accounting System

Accounting standards are the one that aids in acquiring the consistency of entire accounting. It is one significant benefit of accounting guidelines. Accounting guidelines set similar standards and guidelines for the treatment of accounting exchanges.

It implies that all organizations record the exchanges in a similar way. For instance, Accounting Standard administers the entire deterioration of accounting. All organizations will be following AS-6 for issues worried about devaluation. This way it acquires consistency throughout the entire accounting system in the country, as well as globally.

Report of Management Performance

The accounting standards make it simple in deciding responsibility of the executives. It makes it simple to gauge the exhibition of supervisory crew and give any ideas.

It helps in breaking down administration capacity in keeping up with dissolvability of the firm, expanding the organization's benefit and different other significant jobs.

It guides the administration to take on specific accounting standards and its strategy. Same arrangement ought to be followed continually to keep away from any disarray.

Accounting Easy & Simple

Working in the general Indian accounting system, data is a significant benefit of accounting norms. It gives standard guidelines to each and every accounting exchange. It eliminates all intricacy in the accounting system.

Standard and uniform cycle is followed. It helps the clients in simple agreement and dodges any deludes from it.

Say Goodbye to Fraudulation

Accounting standards assume a proficient part in forestalling fakes in the accounting system. Fakes and any accounting information control may unfavorably influence the association.

Accounting norms set up various accounting rules and standards. These accounting standards administer the entire accounting system. These standards are not discretionary to be followed yet are obligatory to be followed.

It turns out to be practically difficult to distort and control any monetary information on a piece of the executives. Submitting any extortion additionally becomes more enthusiastic for them.

Provides Assistance to Auditors

The Indian accounting standards help the auditors in playing out their obligations, in their audits. It improves on their assignment and makes it simple for them to play out their jobs. Accounting Standards have set up various guidelines, rules and guidelines to be trailed by organizations in their accounting system.

These standards and guidelines are obligatory to be trailed by each organization. It oversees the entire way of planning and introducing monetary guidelines. So if the examiner guarantees that the organization has kept accounting guidelines, he can without much of a stretch confirm that all monetary norms are reasonable and valid.

Easy Comparability

Accounting standards have improved the correlation of various financial reports. Budget reports of two organizations can be effectively thought about. In the event that two organizations are following a distinctive accounting framework and configuration, examination between them turns out to be very troublesome.

Like on the off chance that one organization follows LIFO technique for stock keeping, accounting while others follows FIFO strategy. Here examination becomes troublesome as two are following various techniques. Accounting standards help in beating this issue.

Accounting standard-setting bodies

Accounting standard setting bodies are national or international organizations that have been delegated responsibility for setting Generally Accepted Accounting Principles by statute in a country or jurisdiction.

International

The International Accounting Standards Board issues IFRS

The International Federation of Accountants (with its International Public Sector Accounting Standards Board - IPSASB) issues IPSAS for Government/Public entities accounting.

The IFRS Foundation

Albania

Albanian National Accounting Council

Australia

Australian Accounting Standards Board

Bhutan

Accounting and Auditing Standard Board of Bhutan

Botswana

Botswana Institute of Chartered Accountants

Canada

CICA's Accounting Standards Board "AcSB"

France

Autorité des Normes Comptables (ANC) (formerly the *Conseil National de la Comptabilité*)

Germany

Accounting Standards Committee of Germany (ASCG, in German: DRSC)

India

National Advisory Committee on Accounting Standards (NACAS) with the aide and advice of Institute of Chartered Accountants of India and Institute of Cost Accountants of India

Getting replaced soon by NFRA in the Company Bill 2012.

Iran

Accounting Standards Board

Malaysia

Malaysian Accounting Standards Board

Malta

Maltese Accountancy Board

New Zealand

Accounting Standards Review Board

Nigeria

Institution of Chartered Accountants of Nigeria (ICAN)

Association of National Accountants of Nigeria (ANAN)

Pakistan

The Institute of Certified General Accountants (CGA-Pakistan)

Philippines

Financial Reporting Standards Council (FRSC)

Saudi Arabia

Saudi Organization for Certified Public Accountants (SOCPA)

South Africa

South African Institute of Chartered Accountants (SAICA)

South African Institute of Professional Accountants (SAIPA)

United Kingdom and Ireland

Accounting Standards Board

United States

National Association of State Boards of Accountancy (NASBA)

Financial Accounting Standards Board (FASB)

AICPA Accounting Principles Board (APB)

Governmental Accounting Standards Board (GASB)

Federal Accounting Standards Advisory Board (FASAB)

Procedure for Formulation of Accounting Standards

Let us take a brief look at the procedure setting process that the ASB follows

First, the ASB will identify areas where the formulation of accounting standards may be needed

Then the ASB will constitute study groups and panels to discuss and study the topic at hand. Such panels will prepare a draft of the standards. The draft normally includes the definition of important terms, the objective of the standard, its scope, measurement principles and the representation of said data in the financial statements.

The ASB then carries out deliberations of the said draft of the standard. If necessary changes and revisions are made.

Then this preliminary draft is circulated to all concerned authorities. This will generally include the members of the ICAI, and any other concerned authority like the Department of Company Affairs (DCA), the SEBI, the CBDT, Standing Conference of Public Enterprises (SCPE), Comptroller and Auditor General of India etc. These members and departments are invited to give their comments.

Then the ASB arranges meetings with these representatives to discuss their views and concerns about the draft and its provisions

The exposure draft is then finalized and presented to the public for their review and comments

The comments by the public on the exposure draft will be reviewed. Then a final draft will be prepared for the review and consideration of the ICAI

The Council of the ICAI will then review and consider the final draft of the standard. If necessary they may suggest a few modifications.

Finally, the Accounting Standard is issued. In the case of standard for non-corporate entities, the ICAI will issue the standard. And if the relevant subject relates to a corporate entity the Central Government will issue the standard.