CHAPTER-5
ACCOUNTING STANDARDS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

Accounting Standard

International Accounting Standard Committee (IASC) was set up in June, 1973 comprising professional accounting bodies of over 75 countries (including the Institute of Chartered Accountants of India (ICAI) and the Institute of Cost and Works Accountants of India (ICWAI)

The Institute of Chartered Accountants of India set up the Accounting Standards Board (ASB) in April, 1977 to identify the areas of accounting where alternative and diverse practices were followed. ASB was, therefore, asked to draft the accounting standards in view of the legal provisions of the country. ASB submitted the draft accounting standards to Institute of Chartered Accountants of India. **Upto 1st April, 2010, 32 accounting standards have been issued by ICAI.**

Meaning of Accounting Standards

Accounting Standards (AS) are written statements of uniform accounting rules and guidelines issued by the accounting body of the country (Institute of Chartered Accountants of India) to be followed while preparing and presenting the financial statements.

Accounting Standards issued by the Institute of Chartered Accountants of India

AS No.	Title
AS-1	Disclosure of Accounting Policies
AS-2	Valuation of Inventories (Revised)
AS-3	Cash Flow Statement (Revised)
AS-4	Contingencies and Events Occurring after the Balance Sheet Date (Revised)
AS-5	Prior Period and Extraordinary Items and Changes in Accounting Policies
AS-6	Depreciation Accounting (Revised)
AS-7	Accounting for Construction Contracts
AS-8	Accounting for Research and Development
AS-9	Revenue Recognition
AS-10	Accounting for Fixed Assets
AS-11	Accounting for the Effects of Changes in Foreign Exchange Rates (Revised)
AS-12	Accounting for Government Grants
AS-13	Accounting for Investments
AS-14	Accounting for Amalgamations
AS-15	Accounting for Retirement Benefits in the Financial Statements of Employers
AS-16	Borrowing Costs
AS-17	Segment Reporting

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AS-18	Related Parties Disclosures
AS-19	Leases
AS-20	Earnings Per Share
AS-21	Consolidated Financial Statements
AS-22	Accounting for Taxes on Income
AS-23	Accounting for Investments in Associates in Consolidated Financial Statements
AS-24	Discontinuing Operations
AS-25	Interim Financial Reporting
AS-26	Intangible Assets
AS-27	Financial Reporting of Interests in Joint Venture
AS-28	Impairment of Assets
AS-29	Provisions, Contingent Liabilities and Contingent Assets
AS-30	Financial Instruments: Recognition and Measurement
AS-31	Financial Instruments Presentation
AS-32	Financial Instrument: Disclosures

Concept of Accounting Standards

Accounting standards may be defined as written statements, issued from time to time by institutions of accounting professionals, specifying uniform rules or practices for drawing the financial statements.

Kohler defines accounting standards as a code of conduct imposed on accountants by custom, law or professional body."

Nature of Accounting Standards

(i) Accounting standards lay down the **norms** of accounting policies and practices by way of codes to direct as to how the transactions and events should be dealt with in accounts and disclosed in the financial statements. For example, accounting standard may define the term **cost** and lay down a definite method for valuation of inventories with minor modifications under special circumstances.

(ii) In this way, they remove the effect of diverse accounting practices and policies so that financial statements of different business units become **comparable**.

(iii) They prescribe a **preferred accounting treatment** from the available set of methods for solving one or more accounting problems.

(iv) They provide information to the users of financial statements as to the **basis** on which such statements have been prepared.

(v) They limit the area within which accountant has to function and in this respect they are just like **laws**. However, accounting standards do not aim to introduce rigidity in accounting. They only attempt to limit the flexibility and provide the accountants realistic guidelines. If the specific circumstances of an enterprise do not justify the application of a certain accounting standard, the alternative practice, regarded as more suitable, may be adopted.

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Objectives of Accounting Standards:

- **(i)** To ensure uniformity in the preparation and presentation of financial statements.
- **(ii)** To provide information to the users about the policies adopted in the preparation of financial statements.
- **(iii)** To remove the effect of diverse accounting policies and practices.
- **(iv)** To ensure consistency, transparency and comparability of financial statements.
- **(v)** To improve the reliability and credibility of financial statements.

Utility or Benefits of Accounting Standards

Accounting standards have been evolved to curb the abuse of flexibility in the adoption of accounting policies by the business enterprises. Accounting Standards provide the accountants those accounting policies which are most suitable in a given situation. The utility of accounting standards may be stated as follows:

- **(i)** **Accounting Standards improve the reliability and credibility of Financial Statements**
- **(ii)** **Accounting Standards ensure the consistency and comparability of Financial Statements**
- **(iii)** **Accounting Standards help in resolving conflict of financial interests among various groups**
- **(iv)** **Accounting Standards significantly reduce the chances of manipulations and frauds**
- **(v)** **Helpful to Auditors**

Limitations of Accounting Standards:

In spite of many benefits derived from accounting standards, there are some limitations also. Some of these limitations are:

- **(i)** **Restrict Initiative**: Since accounting standards are mandatory in nature they restrict initiative for better presentation and disclosure.
- **(ii)** **Rigid in Nature**: Accounting standards are rigid in nature. They restrain the Accountants from using a more suitable alternative solution to a particular problem.
- **(iii)** **Based on Historical Costs**: Accounting standards are based on historical cost concept Assets are shown in the Balance Sheet at historical cost and as such depreciation is also charged on such historical cost. It is for this reason that (International Financial Reporting Standards) were introduced wherein the assets and liabilities are required to be shown at current or fair value as at the date of Balance Sheet.
- **(iv)** **Obstruct the Judgment of Auditors**: Accounting Standards obstruct the judgment of the auditors as the standards are mandatory.

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International Financial Reporting Standards (IFRS);

The term IFRS refers to the International Financial Reporting Standards issuedby International Accounting Standard Board (IASB), IFRS also cover a wide range of International Accounting Standards (IAS) issued by the International Accounting Standard Committee (IASC). International Accounting Standards (IAS) I require financial statements to comply with all requirements of IFRS,

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

International Accounting Standards Boards (IASB) and International Financial Reporting Standards (IFRS). In the year 2001, IASC was replaced with International Accounting Standards Board (IASB). IASB reviewed all the 41-IAS and scrapped 12-IAS. So effective IAS are 29 now. The accounting standards issued by IASB are termed as International Financial Reporting Standards (IFRS).

Assumptions in IFRS:

(i) **Going Concern Assumption**: It is assumed that the life of the business is infinite, i.e., the entity will continue to exist for an indefinite period in the future.

(ii) **Accrual Assumption**: As per this assumption transactions are recorded on accrual basis, i.e., as and when they occur and the date of settlement is immaterial.

(iii) **Measuring Unit Assumption:** Measuring unit is the current purchasing power. It means that the assets are not shown in the Balance Sheet at historical cost but they are shown at current or fair value. In other words, assets are shown at the amount that would have been paid if the same asset has been acquired currently.
Similarly, liabilities are shown at the amount that would be required to settle them.

(iv) **Constant Purchasing Power Assumption**: This assumption requires that the value of capital be adjusted to inflation at the end of the financial year,

Need for IFRS: The need for IFRS arises from the following reasons:

(i) **Easy Access to Global Capital Markets**: Capital markets have now become global and companies are now in a position to access the funds globally. But investors all over the world rely on financial statements prepared on the basis of IFRS. Hence, IFRS based financial statements are now a pre-requisite for the enterprises seeking to raise overseas funds.

(ii) **Easy to Make Comparisons:** International investors would like to compare financial statements based on internationally accepted set of accounting standards. It improves the ability of investors to compare their investments in global basis and thus lower their risk of errors of judgment Financial statements based on IFRS will facilitate the investors to compare out making adjustments for national accounting differences.

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(iii) **Uniformity in Financial Reporting:** The adoption of IFRS bring uniformity, comparability and transparency in financial statements standard and quality of financial reporting.

(iv) **Lower Cost of Capital Raised Abroad:** At present companies that operate in global environment have to prepare two sets of financial statements-One set based on home country's accounting standards and another set based on IFRS. In case of adoption of IFRS it will have to prepare only one set of financial statements and thus the cost of raising funds from abroad will be minimized.

(v) **True and Fair Valuation of Assets**: There is wide gap between existing Indian Accounting Standards and IFRS. As per Indian Accounting Standards, assets are valued on historical cost whereas as per IFRS assets are reported at fair value i.e., the estimated value at which the asset could be sold in the market. Adoption of IFRS would provide a uniform basis for the reporting of true and fair value of assets.

(vi) **Difficult to Commit Fraud and Manipulate the Accounts:** It is easy to manipulate the accounts and commit fraud in the traditional system of accounting. There are tough and rigid rules for the preparation and presentation of financial statements under IFRS and it is extremely difficult to manipulate the accounts.

Benefits of IFRS:

IFRS are very useful for business enterprises carrying on business worldwide. In addition to the enterprises operating globally, IFRS is helpful to investors, industry and accounting professionals in the following way:

(i) **Helpful to Enterprises Operating Globally**: Entities having business operations in different countries will face problems of consolidation of financial statements if they prepare their financial statements according to the standards prevailing in different countries. IFRS unify the accounting practices worldwide as a result of which the problem of consolidation is avoided.

(ii) **Helpful to Investors**: Investors require high quality, relevant, reliable, transparent and comparable information in financial statements in order to make economic decisions. The use of common set of high quality accounting standards i.e., IFRS would be helpful to investors in comparison to financial statements prepared under different accounting standards adopted by different countries.

(iii) **Helpful to Industry:** Obtaining funds from outside the country becomes easier if the financial statements comply with Globally accepted accounting standards. Now a days most of the stock exchanges require information as per IFRS and Convergence to IFRS would enable Indian Companies to access international capital market easily.

(iv) **Lower Cost of Raising Funds Abroad**: Cost of raising funds abroad can be minimized under IFRS as there will be no need to prepare two sets of financial statements - one set on the basis of IFRS and another on the basis of Accounting Standards.

(v) **Helpful to Accounting Professionals:** Accounting professionals will be able to provide better services in countries adopting IFRS.

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(vi) **True and Fair View**: In IFRS based financial statements assets are valued on the concept of true and fair value i.e., on the basis of their market value. Indian Accounting Standards ignore this concept.

Difference between IFRS and Indian GAAP or Accounting Standards:

(i) IFRS are based on **Principles** whereas Indian GAAP or Accounting Standards are based on **Rules**. For example, under the Indian laws, Balance Sheet and Statement of Profit & Loss are prepared according to Schedule III of the Companies Act 2013, whereas IFRS do not prescribe any format for these. IFRS prescribe that items should be shown in the Balance Sheet as per the principles associated with each item. For example, under Schedule III Redeemable Preference Shares are shown under the head 'Share Capital' but IFRS require it to be shown under the head 'Loans' since, in the real sense, Preference Share Capital is not a Capital but loan because it carries a fixed rate of dividend and also has to be redeemed as per the terms of issue but not later than 20 years from the date of their issue.

(ii) IFRS are based on 'Fair Value' concept whereas Indian GAAP or Accounting Standards are based on Historical Cost concept. As per Indian GAAP or Accounting Standards assets are shown in the Balance Sheet at Historical Cost and as such depreciation is also charged on such historical cost but IFRS require that the assets and liabilities should be shown at current or fair value as at the date of Balance sheet. Thus, under IFRS depreciation is not charged on the cost of the asset but the asset is valued on the date of Balance Sheet and the difference in the opening and closing value of the asset is debited or credited to Profit and Loss Account.

(iii) Under IFRS the useful life of the assets has to be reassessed again and again until the asset is fully depreciated whereas as per Indian GAAP the useful life is estimated only at the beginning.

(iv) Under IFRS depreciation is not calculated on the total cost of the asset but on the cost of significant components of the asset. For example in the case of a Truck, the depreciation may be calculated separately for its wheels and the main body of the Truck separately. However, as per Indian Accounting Standards, depreciation is calculated on the total value of the asset.

(v) IFRS provide a wide framework in which clear guidelines are given for financial reporting. Under the framework provided by IFRS, Assets, Liabilities and Equity are clearly defined. But no such framework exists under accounting standards.

Indian Accounting Standards (Ind - AS)

Sr. No.	Standard	Title
1.	Ind AS-1	Presentation of Financial Statements
2.	Ind AS-2	Inventories
3.	Ind AS-7	Statement of Cash Flows
4.	Ind AS-8	Accounting Policies, Changes in Accounting EstimatesErrors
5.	Ind AS-10	Events after the Reporting Period
6.	Ind AS-11	Construction Contracts
7.	Ind AS-12	Income Taxes

8.	Ind AS-16	Property, Plant and Equipment
9.	Ind AS-17	Leases
10.	Ind AS-18	Revenue
11.	Ind AS-19	Employee Benefits
12.	Ind AS-20	Accounting for Government Grants and Disclosure of Government Assistance
13.	Ind AS-21	The Effects of Changes in Foreign Exchange
14.	Ind AS-23	Borrowing Costs
15.	Ind AS-24	Related Party Disclosures
16.	Ind AS-27	Consolidated and Separate Financial Statements
17.	Ind AS-28	Investments in Associates
18.	Ind AS-29	Financial Reporting in Hyperinflationary Economies

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VERY SHORT ANSWER QUESTION

1. **What are Accounting Standards ?**

Ans: These are written statements specifying uniform rules and practices for preparing the financial the financial statement .

2. **Give to points regarding nature of accounting standards**

Ans:

(i) They lay down the norms of accounting policies to direct as to how the transaction should be recorded .

(ii) They remove the effect of diverse accounting policies.

3. **Give two advantages of accounting standards**

Ans:

(i) Accounting standards improve the reliability and credibility to financial statements.

(ii) Accounting standards ensure the consistency and comparability of financial statements

4. **What are the two basis objectives of having Accounting Standards?**

Ans:

(i) To ensure uniformity in accounting practices.

(ii) To ensure transparency , consistency and comparability

5. **Why are accounting standards required ?**

Ans: To improves reliability and bring uniformity in accounting practices

6. **What is the full form of IFRS?**

Ans: International Financial Reporting Standards

7. **What is the basic difference between IFRS and Accounting Standards(AS) issued by ICAI (Institute of Chartered Accounting of India)**

Ans :IFRS are based on 'Fair Value Concept' whereas Accounting Standards are based on ' Historical Cost Concept .