B.Com. Hons. Semester-IV
CC-8 Accounting Standard [BCOMHACCC401]

Unit 1: Indian Accounting Standards

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Concept of Accounting Standards:

We know that GAAP can misguide intended users in taking decision relating to their field. Keeping in view the problems faced by many users of accounting, a need for the development of common accounting standards was aroused.

For this purpose, the Institute of Chartered Accountants of India (ICAI), which is also a member of International Accounting Standards Committee (IASC), had constituted Accounting Standard Board (ASB) in the year 1977. ASB identified the areas in which uniformity in accounting was required. After detailed research and discussions, it prepared and submitted a draft to the ICAI. After proper examination, ICAI finalized them and notified for its use in financial statements.

Meaning of Accounting Standards:

Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions, for the preparation of uniform and consistent financial statements and also for other disclosures affecting the different users of accounting information.

Accounting standards lay down the terms and conditions of accounting policies and practices by way of codes, guidelines and adjustments for making the interpretation of the items appearing in the financial statements easy and even their treatment in the books of account.

Briefly discuss the Development of Accounting Standards:

International Accounting Standard:

International Accounting Standard Committee (IASC) came into being on 29th January 1973 when 16 accounting bodies (viz, the Institutions of Chartered Accountants from 9 nations i.e. USA, Canada, UK and (Ireland, Australia, France, Germany, Spain, Mexico and Netherlands) signed the constitution for its formation.

Its headquarter is situated in London. The objective of IASC is to develop accounting standards which are to be observed in the presentation of audited financial statements and to promote their worldwide acceptance.

The Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India are members of the IASC.

Accounting Standard Boards of India:

On 21st April 1977, The Institute of Chartered Accountants of India, as a premier accounting body in our country, set up the “Accounting Standard Board” (ASB) to harmonies the diverse accounting policies and practice prevalent in our country.

The primary duty of ASB is to formulate the accounting standards for India. These standards may be established by the Council of the Institute in India. During formulation of accounting standards, the ASB considered the applicable laws, usages, customs and the business environ-ment existing in our country.

In 2006, ICAI initiated the process of shifting towards the International Financial Reporting Standards (IFRS). International Accounting Standards Board (IASB) issues the IFRS. The purpose of the ICAI to shift towards the IFRS is to increase the acceptability and transparency of the financial statements of the Indian corporates on the global platform.

The government and ICAI first analysed the requirements of IFRS in detail. They then decided to converge it. Accounting Standards Board (ASB) has formulated the Ind AS. It has tried it’s best to keep them in line with the IFRS. Only absolutely essential changes were made.

The Central Government of India issued Indian Accounting Standards in consultation with the National Advisory Committee on Accounting Standards (NACAS). It did this under the supervision and control of the Accounting Standards Board (ASB) of ICAI.

Indian AS (Ind AS) are IFRS converged standards. They are named and numbered in the same way as their corresponding IFRS. National Advisory Committee on Accounting Standards (NACAS) recommended these standards to the Ministry of Corporate Affairs. Ministry of Corporate Affairs (MCA) makes Ind AS applicable on the companies in India. So far 40 Indian AS have been issued.

Discuss the advantages & limitations of Accounting Standard:

Accounting Standards are the ruling authority in the world of accounting. It makes sure that the information provided to potential investors is not misleading in any way. Let us take a look at the benefits of AS.

1] Attains Uniformity in Accounting

Accounting Standards provides rules for standard treatment and recording of transactions. They even have a standard format for financial statements. These are steps in achieving uniformity in accounting methods.

2] Improves Reliability of Financial Statements

There are many stakeholders of a company and they rely on the financial statements for their information. Many of these stakeholders base their decisions on the data provided by these financial statements. Then there are also potential investors who make their investment decisions based on such financial statements.

3] Prevents Frauds and Accounting Manipulations

Accounting Standards (AS) lay down the accounting principles and methodologies that all entities must follow. One outcome of this is that the management of an entity cannot manipulate with financial data. Following these standards is not optional, it is compulsory.

So these standards make it difficult for the management to misrepresent any financial information. It even makes it harder for them to commit any frauds.

4] Assists Auditors

Now the accounting standards lay down all the accounting policies, rules, regulations, etc in a written format. These policies have to be followed. So if an auditor checks that the policies have been correctly followed he can be assured that the financial statements are true and fair.

5] Comparability
This is another major objective of accounting standards. Since all entities of the country follow the same set of standards their financial accounts become comparable to some extent. The users of the financial statements can analyze and compare the financial performances of various companies before taking any decisions.
6] Determining Managerial Accountability
The accounting standards help measure the performance of the management of an entity. It can help measure the management's ability to increase profitability, maintain the solvency of the firm, and other such important financial duties of the management.

Limitations of Accounting Standards
Accounting standards have important role in the accounting system. Apart from their importance, they have certain limitations also. Some of these limitations are discussed below:

1. Brings Inflexibility & Rigidity: It is one of the major disadvantage of accounting standards. Accounting standards basically establish each & every principles and rules for accounting treatment. Every company is required to follow the same principles constantly. Therefore all companies are required to fit themselves into guidelines of accounting standards. Every companies goes through different situations & have different financial transactions. Sometimes it becomes difficult for them to follow the same guidelines.
2. Involves High Costs: Another disadvantage of following accounting standards is that it involves high costs. Implementing accounting standards in your accounting standards is too costly.
Company need to change their entire procedures, upgrade their systems & provide their employee's training accordingly. Companies need to monitor whether employees are correctly following standards. All these activities require large costs for bringing changes.
3. Difficult to Choose Among Alternatives: Choosing among different alternatives available is another disadvantage of Accounting standards. Accounting standards provides many options for treatment of the same accounting concept.
It becomes difficult for companies to decide which one is best for them. Accounting standard does not clearly state that which one is the appropriate choice. For ex. for stock valuation there are 3 alternatives available. These are weighted average, FIFO & LIFO method. Choosing which one is best is difficult task.
4. Scope is Restricted: The accounting standards are followed in accordance with prevailing laws & statutes. Accounting standards cannot override the statutes & laws. These standards are created & framed in accordance with prevailing laws. Using these standards as per the prevailing laws can limit & restricts their scope.
5. Time-Consuming: Another drawback of Accounting standards is that it is time-consuming. Implementation of accounting standards requires many steps to be followed to prepare financial report. It makes the process of preparing financial statements complex & time-consuming.

Objectives of Accounting Standards:
For the following purposes, accounting standards are needed:
(i) For bringing uniformity in accounting methods: Accounting standards are required to bring uniformity in accounting methods by proposing standard treatments to the accounting issue. For example, AS-6(Revised) states the methods for depreciation accounting.

(ii) For improving the reliability of the financial statements: Accounting is a language of business. There are many users of the information provided by accountants who take various decisions relating to their field just on the basis of information contained in financial statements. In this connection, it is necessary that the financial statements should show true and fair view of the business concern. Accounting standards when used give a sense of faith and reliability to various users.

They also help the potential users of the information contained in the financial statements by disclosure norms which make it easy even for a layman to interpret the data. Accounting standards provide a concrete theory base to the process of accounting. They provide uniformity in accounting which makes the financial statements of different business units, for different years comparable and again facilitate decision making.

(iii) Simplify the accounting information: Accounting standards prevent the users from reaching any misleading conclusions and make the financial data simpler for everyone. For example, AS-3 (Revised) clearly classifies the flows of cash in terms of 'operating activities', 'investing activities' and 'financing activities'.

(iv) Prevents frauds and manipulations: Accounting standards prevent manipulation of data by the management and others. By codifying the accounting methods, frauds and manipulations can be minimized.

(v) Helps auditors: Accounting standards lay down the terms and conditions for accounting policies and practices by way of codes, guidelines and adjustments for making and interpreting the items appearing in the financial statements. Thus, these terms, policies and guidelines etc. become the basis for auditing the books of accounts.

What are the problems of Accounting Standard:

The following points highlight the four major difficulties/problems faced in setting up accounting standard. The difficulties are: 1. Difficulties in Definition 2. Political Bargaining in Standard Setting 3. Conflict in Accounting Theories 4. Pluralism.

1. Difficulties in Definition:

To agree on the scope of accounting and of principles or standards, is certainly most difficult. Some, for example, equate accounting with public accounting, that is mainly with auditing and the problems of the auditor. Another opinion is that it (accounting) is frequently assumed to have a basis in a private enterprise economy.

Some use "principles" as a synonym for "rules or procedure". The result is that the number of principles become large and most uneven in coverage and in quality. Another group seems to equate "principles" with "convention," that is, with consensus or agreement.

2. Political Bargaining in Standard Setting:

Today, as the standard setting process reveals, accounting can no longer be thought of as non-political. The numbers that accountants report, have a significant impact on economic behaviour.

Accounting rules therefore affect human behaviour. The stories conveyed by annual reports confirm or disappoint investor expectations and have the power to move millions (whether of money or persons).

3. Conflict in Accounting Theories:

There has been remarkable growth in accounting theories especially relating to income measurement, asset valuation, and capital maintenance. Though much of the developments has taken place abroad, (USA, UK, Canada, Australia, etc.), accounting in other countries has also been influenced. While the theorists battled on, the various sectional interests found that the theories could be used to support their own causes and arguments.

At present, there is not a single theory in accounting which commands universal acceptance and recognition. There is no best answer to the different terms like profit, wealth, distributable income, value, capital maintenance, and so forth.

4. Pluralism:

The existence of multiple accounting agencies has made the task of standard setting more difficult. In India, company financial reporting is influenced by although in different degrees, by Accounting Standards Board of ICAI, Ministry of Corporate Affairs, Institute of Cost and Works Accountants of India, Securities and Exchange Board of India (SEBI). No one agency has jurisdiction over the entire area of accounting standards.

A standard setting process, i.e., the process of selecting the appropriate accounting method includes the following important stages:

(1) Identification and assessment of theory.

(2) Research into the costs and benefit of alternative methods. The role of research would be:

- (a) To examine the realism of the assumptions underlying the various methods.
- (b) To assess, and preferably quantify, the benefits accruing to users resulting from the introduction of each alternative method; and
- (c) To identify the costs and practical difficulties of implementation by field studies.

(3) Choice between alternative methods.

Accounting Standards in India:

Accounting Standards-setting in India

The Institute of Chartered Accountants of India (ICAI) being a member body of the IASC,constituted the Accounting Standards Board (ASB) on 21st April, 1977, with a view to harmonise the diverse accounting policies and practices in use in India. After the avowed adoption of liberalisation and globalisation as the corner stones of Indian economic policies in early '90s, and the growing concern about the need of effective corporate governance of late, the Accounting Standards have increasingly assumed importance. While formulating accounting standards, the ASB takes into consideration the applicable laws, customs, usages and business environment prevailing in the country. The ASB also gives due consideration to International Financial Reporting Standards (IFRSs)/ International Accounting Standards (IASs) issued by IASB and tries to integrate them, to the extent possible, in the light of conditions and practices prevailing in India.

Composition of the Accounting Standards Board

The composition of the ASB is broad-based with a view to ensuring participation of all interest-groups in the standard-setting process. These interest-groups include industry, representatives of various departments of government and regulatory authorities, financial institutions and academic and professional bodies. Industry is represented on the ASB by their apex level associations, viz., Associated Chambers of Commerce & Industry (ASSOCHAM), Confederation of Indian Industries (CII) and Federation of Indian Chambers of Commerce and Industry(FICCI). As regards government departments and regulatory authorities, Reserve Bank of India, Ministry of Company Affairs, Comptroller & Auditor General of India, Controller General of Accounts and Central Board of Excise and Customs are represented on the ASB.

Besides these interest-groups, representatives of academic and professional institutions such as Universities, Indian Institutes of Management, Institute of Cost and Works Accountants of India and Institute of Company Secretaries of India are also represented on the ASB. Apart from these interest-groups, certain elected members of the Central Council of ICAI are also on the ASB.

List of Indian Accounting Standards

INDIAN ACCOUNTING STANDARD NO (IAS NO)	NAME OF INDIAN ACCOUNTING STANDARD
Ind AS 101	First-time Adoption of Indian Accounting Standards
Ind AS 102	Share-based Payment
Ind AS 103	Business Combinations
Ind AS 104	Insurance Contracts
Ind AS 105	Non-current Assets Held for Sale and Discontinued Operations
Ind AS 106	Exploration for and Evaluation of Mineral Resources
Ind AS 107	Financial Instruments: Disclosures
Ind AS 108	Operating Segments
Ind AS 109	Financial Instruments
Ind AS 110	Consolidated Financial Statements
Ind AS 111	Joint Arrangements
Ind AS 112	Disclosure of Interests in Other Entities
Ind AS 113	Fair Value Measurement
Ind AS 114	Regulatory Deferral Accounts
Ind AS 115	Revenue from Contracts with Customers
Ind AS 1	Presentation of Financial Statements
Ind AS 2	Inventories
Ind AS 7	Statement of Cash Flows
Ind AS 8	Accounting Policies, Changes in Accounting Estimates and Errors
Ind AS 10	Events after the Reporting Period
Ind AS 12	Income Taxes
Ind AS 16	Property, Plant, and Equipment
Ind AS 17	Leases
Ind AS 19	Employee Benefits
Ind AS 20	Accounting for Government Grants and Disclosure of Government Assistance
Ind AS 21	The Effects of Changes in Foreign Exchange Rates
Ind AS 23	Borrowing Costs
Ind AS 24	Related Party Disclosures

Ind AS 27	Separate Financial Statements
Ind AS 28	Investments in Associates and Joint Ventures
Ind AS 29	Financial Reporting in Hyperinflationary Economies
Ind AS 32	Financial Instruments: Presentation
Ind AS 33	Earnings per Share
Ind AS 34	Interim Financial Reporting
Ind AS 36	Impairment of Assets
Ind AS 37	Provisions, Contingent Liabilities and Contingent Assets
Ind AS 38	Intangible Assets
Ind AS 40	Investment Property
Ind AS 41	Agriculture

Weblography:

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