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AS

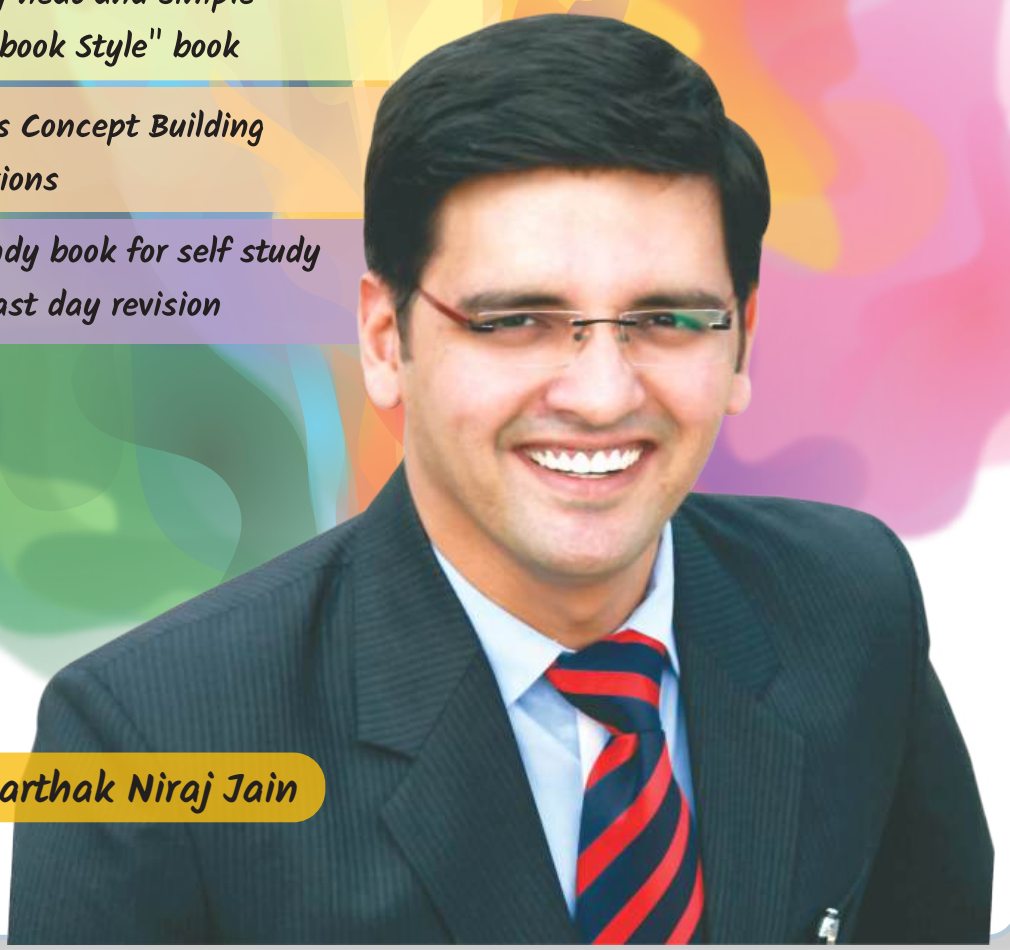
Brahmastra

Self - study Book. Explains all Concepts.. Simplifies all Concepts...

CA Inter Advanced Accounting

Volume-I

- Notebook style multicoloured Book penned by CA SJ
- Scientifically designed for conceptual understanding with minimum effort
- Excellence in simplicity - A very neat and simple "Notebook Style" book
- Covers Concept Building Questions
- A handy book for self study and last day revision



Author : CA. Sarthak Niraj Jain

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AUTHOR

CA. SARTHAK NIRAJ JAIN

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CH 1 INTRODUCTION TO ACCOUNTING STANDARDS

I. INTRODUCTION

- A GAAP
  - Meaning
- B Accounting Standards
  - (i) Meaning
  - (ii) Purpose of ASs
  - (iii) Aspects of ASs
  - (iv) Benefits
  - (v) Objectives
  - (vi) Advantages

A Generally Accepted Accounting Principles (GAAP)

Meaning

a) A **common** set of **accepted**:

Accounting Principles | **Standards** | **Procedures**

that business reporting enterprise must follow when it prepares & presents its FSs.

b) It is a **combination of authoritative standards** ★ **(set by policy boards) and**

commonly accepted ways of:

Recording & **Reporting**

accounting info.

★ Authoritative standards named as:

- Internationally → IFRS
- In India → AS and Ind AS

B Accounting Standards

(i) Meaning

AS are **written policy documents** → **issued by government** → **with the support of other regulatory bodies.**

Eg: MCA issuing ASs for corporates (in consultation with NFRA) covering following aspects of a/cing transactions/events in FS:

- Recognition
- Measurement
- Presentation
- Disclosure

(ii) Purpose of ASs

Promote dissemination of timely and useful financial info. to investors & other stakeholders.

Reduce accounting alternatives, thereby **ensuring comparability** of FSs of different enterprises.

(iii) Aspects of ASs

(a) **Recognition & Measurement** of transactions & events in FSs.

(b) **Presentation of:** transactions & events in meaningful & understandable manner.

(c) **Disclosures of:** transactions & events to facilitate economic users to take: prudent & informed business decisions.

(iv) Benefits

Standardization of alternative accounting treatments

a. **Reduce / eliminate confusing variations** in: A/Cing treatment and Presentation of economic events.

b. **Reflect consensus on a/cing policies** to be used in different identified areas.
Eg:- Inventory valuation, Capitalisation of costs, etc.

c. **Disclosure of a/cing policies** used in preparation of FSs → must be made.

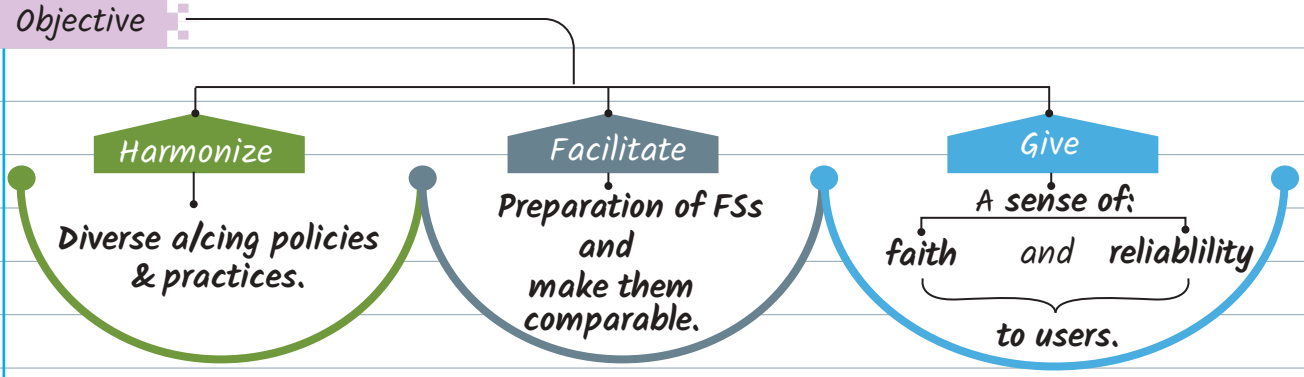
Requirements for additional disclosures

ASs may call for **additional disclosures of:** **A/Cing policies** followed & **Other** required **info.** which would be **helpful for readers** to better understand FSs items.

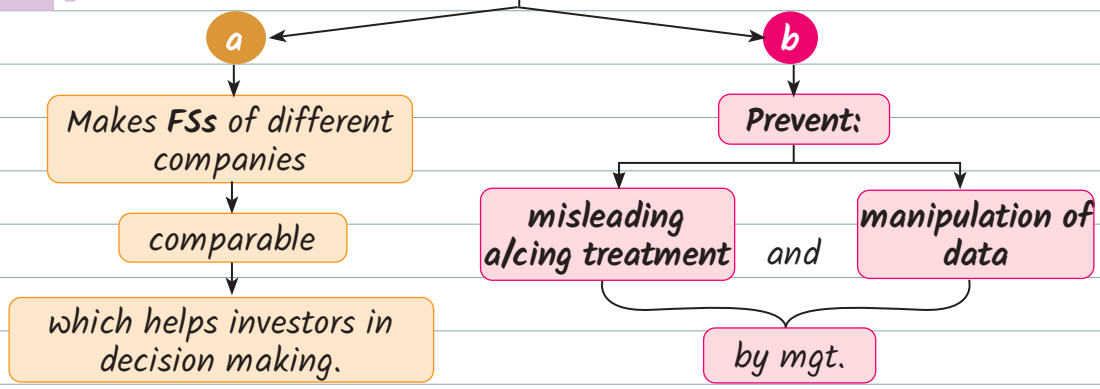
Comparability of FS

Standardization of a/cing procedures → **improves comparability** of FS, **both:** **Intra** & **Inter** **enterprise.**

(v) Objective



(vi) Advantages



2. STANDARDS SETTING PROCESS

Background

- **ICAI constituted** Accounting Standards Board (**ASB**) in 1977.
- **ASB considered IASs / IFRSs** while framing ASs in India and integrated them, as per applicable laws, customs, usages and business environment in the country.
- **Composition of ASB includes** representatives of industries, associations of industries (namely, ASSOCHAM, CII, FICCI), regulators, academicians, government departments, etc.
- ASB is **independent in the formulation of ASs.**
- **NFRA recommend these standards to the MCA.**
- **MCA has to spell out** the **ASs applicable for companies** in India.

➔ **The standard-setting procedure of ASB can be briefly outlined as follows:**

Step I **Identification of area:** Identification of broad areas by ASB for formulation of AS.

Step II **Constitution of study groups:** Constitution of study groups by ASB to consider specific projects and to prepare preliminary drafts of the proposed ASs.

Draft includes:

- **Objective and scope** of the standard,
- **Definitions** of the terms used in the standard,
- **Recognition and measurement principles** wherever applicable, and
- **Presentation and disclosure requirements.**

Consideration of preliminary draft prepared by the study group of ASB and revision, if any, of the draft on the basis of deliberations.

Step III **Preparation of draft and its circulation:**

Circulation of draft AS (after revision by ASB) **to** the **ICAI Council members and specified outside bodies** such as MCA, SEBI, C&AG, CBDT, SCOPE, etc. for comments.

Step IV **Ascertainment of views of different bodies on draft:**

Meeting with representatives of the specified outside bodies to ascertain their views on the draft of the proposed AS.

Step V **Finalisation of exposure draft :**

Finalisation of exposure draft of the proposed AS and its issuance inviting public comments.

Step VI **Comments received on exposure draft:**

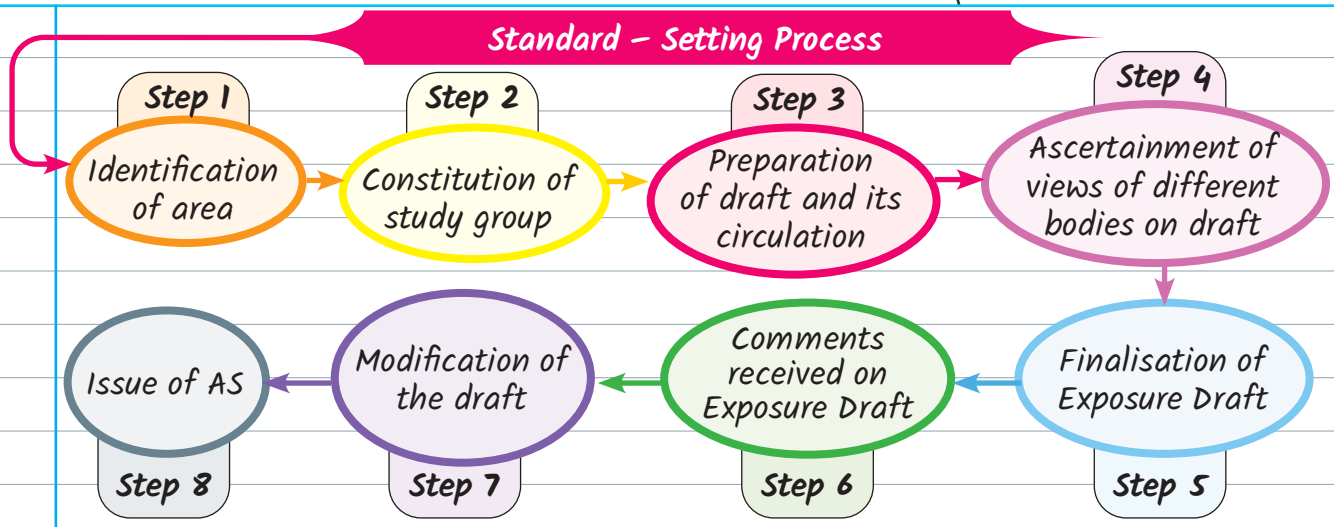
Consideration of comments received on exposure draft and finalisation of the draft AS by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance.

Step VII **Modification of the draft:**

Consideration of the final draft by the Council of the ICAI and if found necessary, modification of the draft in consultation with the ASB is done.

Step VIII **Issue of AS:**

The AS on the relevant subject (for non-corporate entities) is then issued by ICAI. For corporate entities the AS are issued by MCA in consultation with NFRA.



Sec. 133 of Companies Act, 2013

The Central Government may prescribe ASs or any addendum thereto, as recommended by ICAI, constituted u/s 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of recommendations made by NFRA.

3. HOW MANY ACCOUNTING STANDARDS?

The ICAI has, so far, issued 29 ASs. However, **AS-6** on 'Depreciation Accounting' has been **withdrawn on revision of AS-10** 'Property, Plant and Equipment' and **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 27 ASs at present.**

4. STATUS OF ACCOUNTING STANDARDS

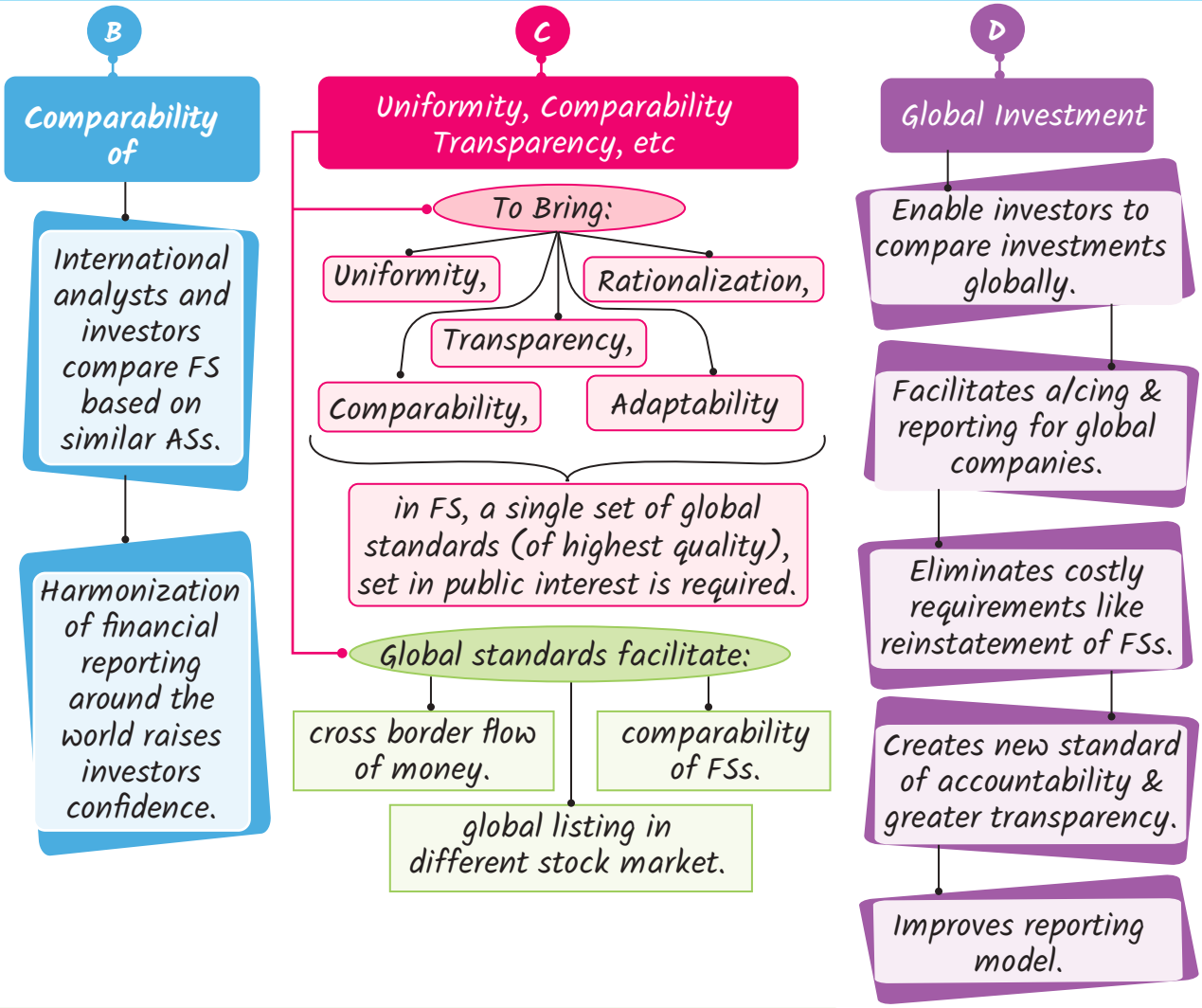
The ASs are made **mandatory from** the **dates specified in respective standards and** are **generally applicable to all enterprises, subject to certain exceptions.** Mandatory status of an AS also depends on statute governing the enterprise.

5. NEED FOR CONVERGENCE TOWARDS GLOBAL STANDARDS

Few key aspects which required the need for convergence are as under:

A Raising funds from international markets

- When an enterprise decides to raise capital from international markets, rules & regulations of such other country shall apply.
- This require enterprise to understand difference b/w:
  - rules governing financial reporting in foreign country
  - with
  - that of its own country (i.e. country of origin).

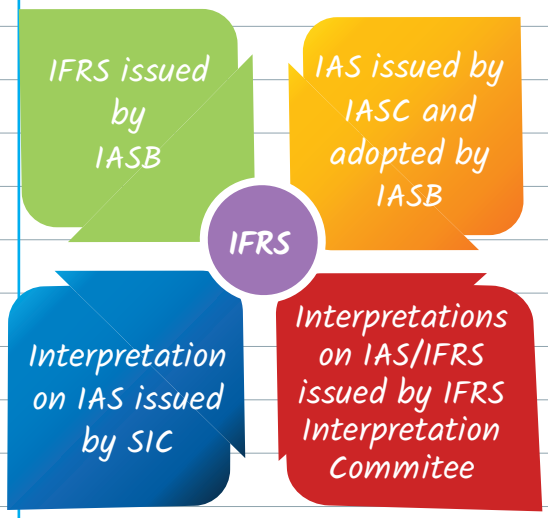


6. INTERNATIONAL ACCOUNTING STANDARD BOARD (IASB)

1. For setting global standards, International Accounting Standards Committee **(IASC)**, presently known as International Accounting Standards Board **(IASB)**, responsible for developing International Accounting Standards **(IAS)**, was established in **June, 1973.**
2. IASs were issued to promote acceptance and observance of IASs **worldwide.**
3. The members of IASC undertook a responsibility to support the standards developed by IASC and to **propagate** those standards in their **respective countries.**
4. Between **1973 and 2001,** the IASC released **IASs.**
5. Between **1997 and 1999,** IASC restructured their organization, which resulted in formation of **IASB**. These changes came into effect on **1st April, 2001.**
6. Subsequently, IASB issued statements called **IFRS.** However, IASB has not rejected the standards issued by the IASC.

Those pronouncements continue to be designated as "International Accounting Standards" (IAS). **The standards issued by IASC till 31.03.2001 are known as IASs** and the **standards issued by IASB since 01.04.2001 are known as IFRSs.**

7. International Financial Reporting Standards (IFRS) as Global Standards



The term IFRS comprises:

1. IFRS issued by IASB;
2. IAS issued by IASC;
3. Interpretations issued by Standard Interpretations Committee (SIC); and IFRS Interpretations Committee of the IASB (called IFRIC – International Financial Reporting Standards Interpretation Committee).

8. BECOMING IFRS COMPLIANT

Any country 

can become IFRS compliant either:

- by adoption process
- or
- by convergence process

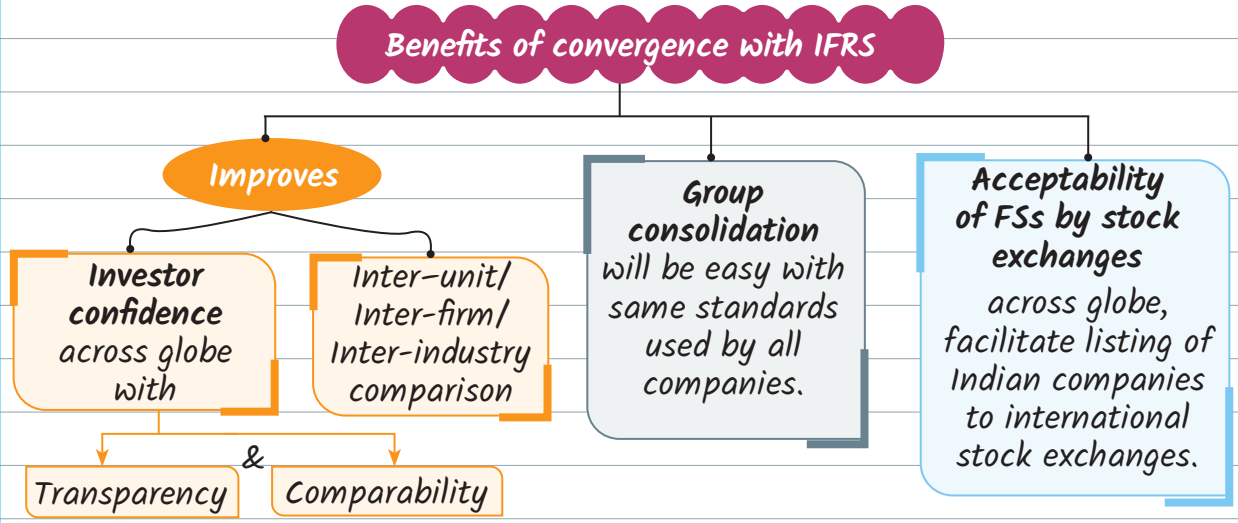
Adoption process: It means that the country sets a

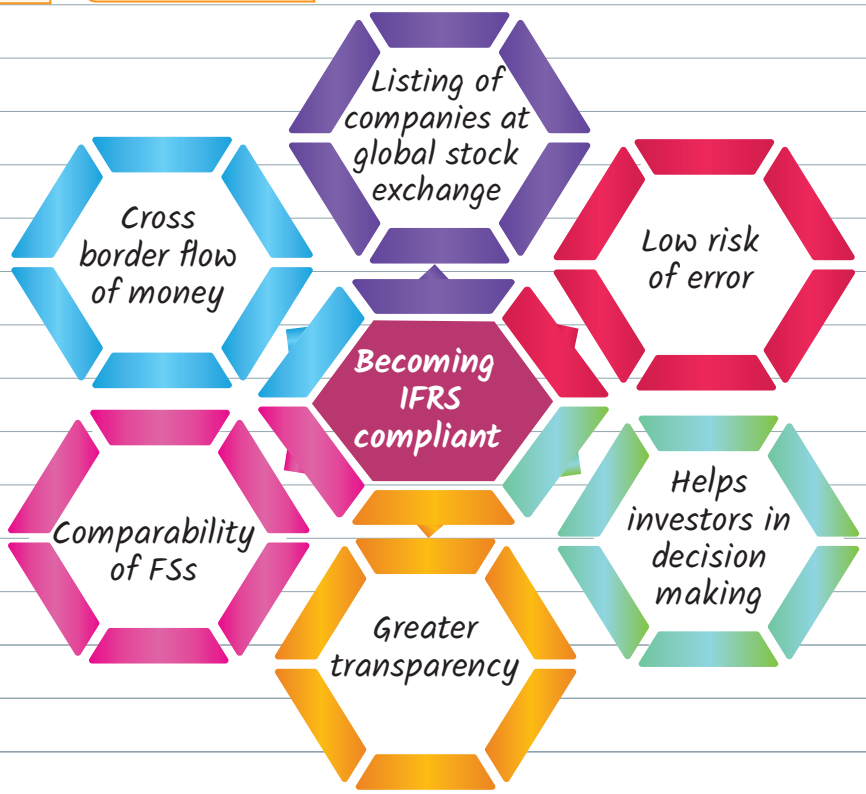
specific timetable → when **specific entities** would be **required to use IFRS** → as **issued by IASB.**

Convergence process : It means that the country will:

- Develop high quality, **compatible ASs**
- and
- Alignment of standards of different standard setters with a certain rate of compromise
- By adopting the standards requirement (either fully/partially)

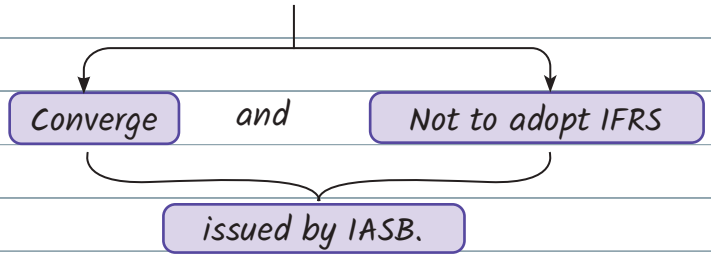
Note: Ind ASs → almost similar to IFRS but with few carve outs.





9. WHAT ARE CARVE OUTs / INs IN IND AS?

1 GOI (in consultation with ICAI) decided to:



2 Ind AS made in line with:
- **corresponding IAS / IFRS**
- and
- **departures** have been made **where essential.**

These changes have been made considering various factors, such as:

a. Terminology differences

To make it **consistent with terminology used in law.**

Eg: Statement of PorL
↓
in place of
↓
Statement Of Comprehensive Income (SOCI) and Balance Sheet
↓
in place of
↓
Statement Of Financial Position (SOFP).

b. Removal of options in accounting principles and practices

in Ind AS vis-à-vis IFRS
↓
to maintain:
- **Consistency**
- &
- **Comparability**

of the FSs to be prepared by following Ind AS.

However, these **changes** will **not result into carve outs.**

c. Difference in economic environment

- **Economic environment** of the country,
↓
is **different** as compared to
↓
economic environment presumed to be in **existence by IFRS.**
↓
- These differences are due to differences in economic conditions prevailing in India.

d. Curve In/Outs

- **Carve-Outs:** These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as 'Carve-outs'.
- **Carve-in:** Additional guidance given in Ind AS over and above what is given in IFRS, is termed as 'Carve-in'.

Formulation of Ind AS

Departures

Resulting into Carve-outs	Not resulting into carve-outs
Deviation from the accounting principles stated in IFRS.	Removal of options in accounting principles and practices in Ind AS vis-a- vis IFRS.

10. CONVERGENCE TO IFRS IN INDIA

1 Aim

- To **comply with IFRS** (to the extent possible)
  - to formulate sound **financial reporting standards.**
  - to **prepare globally accepted FSs.**

2 For convergence of Ind AS with IFRS

- ASB (in consultation with MCA)
- decided to have two separate sets of AS viz.
  - (i) Ind AS converged with IFRS
  - (ii) Existing notified AS.

ICAI → convergence to IFRS; not adoption → Application of IFRS in India considering legal and other conditions prevailing in India

- Deviation from corresponding IFRS, if required → Indian Accounting Standards (Ind AS)
- Decision to have two set of ASs → Existing Accounting Standards (ASs)

3 Significance of emergence of IFRS as Global Standards

(i) Facilitate:

- **Cross border flow of money.**
- **Global listing** in different bourses (stock exchanges)
- **Comparability** of FSs.
- **A/Cing & reporting** for companies with global operations.

(ii) Improves **investor's ability to compare** investments globally.

(iii) Therefore, **lowers** the **risks of errors of judgment.**

(iv) **Eliminates costly requirements,** say, reinstatement of FSs.

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