

MCM-505

ACCOUNTING THEORY & PRACTICES
UNIT-3 ACCOUNTING STANDARDS IN INDIA
AND ISSUES IN ACCOUNTING STANDARD
SETTING

(M. COM. SECOND SEMESTER)

Compiled By
Dr. Gagan Singh

Accounting Standard: Meaning

- Accounting as a 'language of business communicates the financial performance and position of an enterprise to various interested parties by means of financial statements which have to exhibit a 'true and fair' view of financial results and its state of affairs. Like any other language, accounting has its own complicated set of rules. The basic conventions or rules used in preparing financial statements had evolved over many years as a product of the collective experience of practicing accountants. As a result a wide variety of accounting methods were used by different companies.
- “Accounting Standards are the statements of code of practice of the regulatory accounting bodies that are to be observed in the preparation and presentation of financial statements. In layman terms, accounting standards are the written documents issued by the expert institutes or other regulatory bodies covering various aspects of measurement, treatment, presentation and disclosure of accounting transactions.”

Objectives 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, harmonizations of accounting standards do permit flexibility to make the necessary adjustments to suit their purpose.
- The objective of Accounting Standards is to remove variations in the treatment of several accounting aspects and to bring about standardization in presentation. They intent to harmonize the diverse accounting policies followed in the preparation and presentation of financial statements by different reporting enterprises so as to facilitate intra-firm and inter-firm comparison

Significance and Benefits of Accounting Standard

- The 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. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in companies' economic performance.

The benefits of accounting standards may be listed as follows:-

- To improve the reliability of financial statements
- Determining corporate accountability
- Reform in accounting practices
- Benefits to auditors and accountant.

Who issues Accounting Standards in India?

- The Institute of Chartered Accountants of India (ICAI) recognizing the need to harmonize the diverse accounting policies and practices at present in use in India constituted Accounting Standards Board (ASB) on April 21, 1977. The main role of ASB is to formulate Accounting Standards from time to time.

Procedure for issuing 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.

Advantages of Setting Accounting Standards

- *Reduction in Variations*
- *Disclosure Beyond that Required by Law*
- *Facilitates Comparison*
- **Arguments against setting Accounts Standards:**
- *Restriction on Choice of Alternative Treatments*
- *Rigidity*
- *Cannot Override the Statute*

Development of Accounting Standards

- Prior to the 1970s, few academics paid much attention to the standard-setting process in accounting. Beginning in the 1970s, however, it became clear that standard setting was a fascinating process that had become intertwined with the economic self-interests of affected parties. Currently, standard-setting boards or committees are active in a number of countries, including the United States, United Kingdom, Australia, Canada, New Zealand, the Netherlands, Japan and India.
- **At International level** In 1972 International Accounting Standards Committee (IASC), was formed for developing International Accounting Standards (IASs). The IASC comprises the professional accountancy bodies of over 75 countries (including The Institute of Chartered Accountants of India). During these three decades the IASC has issued 40 IASs through a due process involving the worldwide accountancy profession, the preparers and users of financial statements and the national standard-setting bodies. However the IASs are not accepted worldwide.

ACCOUNTING STANDARDS BOARD OF INDIA

- **Formation of the Accounting Standards Board** 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.
- **Scope and function of Accounting Standards Board** The main function of ASB is to formulate accounting standards so that such standards may be established by the Council of the Institute in India. While formulating the accounting standards, ASB will take into consideration the applicable law, customs, usages and business environment.

Accounting Standards Issued so far In India

<i>S.</i>	<i>Title</i>	<i>Recommend- atory or Mandatory</i>	<i>Mandatory from accounting period begin- ning on or after</i>
§ – 1	Disclosure of Accounting Policies	Mandatory	1.4.93
§ – 2	Valuation of Inventories (Revised)	Mandatory	1.4.99
§ – 3	Cash Flow Statement	Mandatory	1.4.2001
§ – 4	Contingencies and Events Occurring After the Balance Sheet Date (Revised)	Mandatory	1.4.95
§ – 5	Prior Period and Extra-ordinary items and Changes in Accounting Policies (Revised)	Mandatory	1.1.96
§ – 6	Depreciation Accounting (Revised)	Mandatory	1.4.95
§ – 7	Accounting for Construction Contracts(Revised)	Mandatory	1.4.03
§ – 8	Accounting for Research and Development Withdrawn and included in	Mandatory	1.4.93
§ – 9	Revenue Recognition	Mandatory	1.4.93
§ – 10	Accounting for Fixed Assets	Mandatory	1.4.93
§ – 11	Accounting for the Effects of Changes in Foreign Exchange Rates (Revised)	Mandatory	1.4.04
§ – 12	Accounting for Government Grants	Mandatory	1.4.94
§ – 13	Accounting for Investments	Mandatory	1.4.95
§ – 14	Accounting for Amalgamations	Mandatory	1.4.95
§ -15	Accounting for Retirement Benefits in the Financial Statements of Employers	Mandatory	1.4.95
§ – 16	Borrowing Costs	Mandatory	1.4.2000
§ – 17	Segment Reporting	Mandatory	1.4.2001
§ – 18	Related Parties Disclosures	Mandatory	1.4.2001
§ – 19	Leases	Mandatory	1.4.2001
§ – 20	Earnings Per Share	Mandatory	1.4.2001
§ – 21	Consolidated Financial Statements	Mandatory	1.4.2001
§ -22	Accounting for Taxes on Income	Mandatory	1.4.2001
§ -23	Accounting for Investments in Associates in Consolidated Financial Statements	Mandatory	1.4.2002
§ – 24	Discontinuing Operations	Mandatory	1.4.2004

Compliance with Accounting Standards

- During the period an accounting standard is recommendatory in nature, the members of the Institute should, while discharging their attest function, examine whether the standard has been followed or not. If the same has not been followed, the members should consider whether, keeping in view the circumstances of the case, a disclosure in their audit reports is necessary.
- Once the standard becomes mandatory, it will be the duty of the members of the Institute to examine, while discharging their attest function, whether this 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 deviations.

Summary

- Financial statements are prepared to summarize the end-result of all the business activities by an enterprise during an accounting period in monetary terms. These business activities vary from one enterprise to other. To compare the financial statements of various reporting enterprises poses some difficulties because of the divergence in the methods and principles adopted by these enterprises in preparing their financial statements. In order to make these methods and principles uniform and comparable to the extent possible – standards are evolved.
- Accounting Standards are used as one of the main compulsory regulatory mechanisms for preparation of general-purpose financial reports and subsequent audit of the same, in almost all countries of the world. Accounting standards are concerned with the system of measurement and disclosure rules for preparation and presentation of financial statements.

References

- SILM developed by Uttarakhand Open University for MCM-505 (Accounting Theory and Practices), Year 2017,