

Accounting Standards : Concept and Objectives

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1. Introduction

Accounting principles, concepts and conventions are used in writing accounts and in preparing financial statements. As seen in the discussion on Accounting Principles, Concepts and Conventions, there can be diverse accounting practices. Accountants have different opinions on various practices. Therefore, the same transaction may be recorded differently based on various accepted practices. For example, straight line method or written down value method or any other method may be used for providing depreciation. Stock can be valued by FIFO or by LIFO method. Out of various options available, the choice of a particular practice depends upon the management policy. If different entities adopt different policies for the same accounting matter, accounts do not remain comparable and useful conclusions cannot be drawn from such accounts. Therefore, to bring uniformity in preparation and presentation of financial statements, attempts are made at the international and national level to formulate and issue accounting standards. For the purpose, in the year 1973 International Accounting Standards Committee (IASC) was set up. On 1st April, 2001, International Accounting Standards Board (IASB) took over the responsibility for setting International Accounting Standards. In India, the Institute of Chartered Accountants of India (ICAI) set up the Accounting Standards Board (ASB) on 21st April, 1977 to formulate accounting standards.

The Institute of Chartered Accountants of India (ICAI) issues Indian Accounting Standards. IASB issues International Financial Reporting Standards (IFRS) with a view to unify the accounting practices worldwide. Now, preparation is on in India also for applying IFRS and ICAI has started issuing Indian Accounting Standards (Ind ASs) compliant with IFRS.

2. Meaning and Concepts of Accounting Standards

Accounting standards are written statements of uniform accounting rules and guidelines issued by the accounting bodies (like ICAI or IASB) to be followed while preparing and presenting the financial statements. The rules, policies or guidelines stated by Accounting Standards are usually for measurement, valuation and disclosure of accounting information in the financial statements.

According to Kohlar, Accounting Standards are a Code of Conduct imposed on accountants by custom, law and a professional body.

In India, Central Government, in consultation with the National Advisory Committee on Accounting Standards (NACAS), notified Companies (India Accounting Standards) Rules, 2015 on 16th February, 2015 to come into force from 1st April, 2015. Under these rules, the Companies as specified therein and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified therein in preparation of their financial statements and audit respectively.

Professional accounting bodies (Such as ASB set up by ICAI) identify areas of accounting where alternative and diverse practices are followed. After detailed deliberations, a draft of Accounting Standard on specific area of accounting is issued. Thereafter, suggestions or comments are also invited on such draft Accounting Standard. Then, after considering all the aspects, Accounting Standard is issued. In the initial years, sometimes, such accounting standards are recommendatory for entities and are made mandatory gradually after some time. Such accounting standards may be made mandatory for specified entities or they may be made applicable to all entities. Accounting standard recommends the practice out of diverse accounting practices that are available or evaluates them in detail to ascertain acceptability thereof. However, accounting standards are not rigid. They also permit adoption of a particular practice out of various options available. Accounting standards are prepared keeping in view the business environment and laws of the country. Therefore, when business environment or laws change, the accounting standards are revised. In case of conflict between the accounting standard and law, the law shall prevail.

3. Objectives and Uses of Accounting Standards

The objectives and utility of accounting standards are as under :

- (1) The objective of setting accounting standards is to bring uniformity in accounting policies and practices and to ensure transparency, consistency and comparability.
- (2) It is also an objective of accounting standard to allow flexibility of adopting a particular practice or method with suitable disclosure to entities out of various acceptable accounting methods or practices available.
- (3) Accounting standards have objective to enhance the reliability of financial statements among their users.
- (4) Accounting standards provide rules and guiding principles for preparation and presentation of financial statements.
- (5) When financial statements are prepared in compliance with accounting standards and auditors have certified such compliance, it enhances the reliability of financial statements.

4. Accounting Standards issued by ICAI

The Institute of Chartered Accountants of India (ICAI) has issued following accounting standards.

No.	Standards	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 Estimates and Errors
5	Ind AS-10	Events After the Reporting Period
6	Ind AS-12	Income Taxes
7	Ind AS-16	Property, Plant and Equipment
8	Ind AS-17	Leases
9	Ind AS-19	Employee Benefits
10	Ind AS-20	Accounting for Government Grants and Disclosure of Government Assistance
11	Ind AS-21	The Effects of Changes in Foreign Exchange Rates
12	Ind AS-23	Borrowing Costs
13	Ind AS-24	Related Party Disclosures
14	Ind AS-27	Separate Financial Statements
15	Ind AS-28	Investments in Associates and Joint Ventures
16	Ind AS-29	Financial Reporting in Hyperinflationary Economies
17	Ind AS-32	Financial Instruments : Presentation
18	Ind AS-33	Earnings Per Share
19	Ind AS-34	Interim Financial Reporting
20	Ind AS-36	Impairment of Assets
21	Ind AS-37	Provisions, Contingent Liabilities and Contingent Assets
22	Ind AS-38	Intangible Assets
23	Ind AS-40	Investment Property
24	Ind AS-41	Agriculture
25	Ind AS-101	First-time Adoption of Indian Accounting Standards
26	Ind AS-102	Share-based Payment
27	Ind AS-103	Business Combinations
28	Ind AS-104	Insurance Contracts
29	Ind AS-105	Non-current Assets Held for Sale and Discontinued Operations
30	Ind AS-106	Exploration for and Evaluation of Mineral Resources
31	Ind AS-107	Financial Instruments : Disclosures
32	Ind AS-108	Operating Segments
33	Ind AS-109	Financial Instruments
34	Ind AS-110	Consolidated Financial Statements
35	Ind AS-111	Joint Arrangements
36	Ind AS-112	Disclosure of Interests in Other Entities
37	Ind AS-113	Fair Value Measurement
38	Ind AS-114	Regulatory Deferral Accounts
39	Ind AS-115	Revenue from Contracts with Customers

Exercise

1. Write a short note on Accounting Standards.
2. State meaning of Accounting Standards and explain the concept thereof.
3. State the objective and utility of accounting standards.
4. Very short questions :
 - (1) In which year International Accounting Standards Committee (IASC) was established ?
 - (2) In which year ASB was set up by ICAI ?
 - (3) For what purpose ASB was set up ?

