INTRODUCTION TO ACCOUNTING STANDARDS

Accounting standards are written policy documents issued by expert accounting body or by Government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. Accounting Standards are in the nature of a structural framework within which credible financial statements can be prepared. These are formulated with a view to harmonize different accounting policies and practices. The objective of Accounting Standards is to reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality. It ensures comparability of financial statements of different enterprises with a view to provide meaningful information to various users of financial statements.

The Accounting Standards describes the accounting principles and the methods of applying these principles in the preparation and presentation of financial statements so that they give a true and fair view, thus, leading to greater transparency and market discipline. Accounting Standards also helps the regulatory agencies in benchmarking the accounting accuracy.

Accounting standards deal with the following issues:

(a) Recognition of events and transactions in the financial statements,
(b) Measurement of these transactions and events,
(c) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the users, and
(d) Disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS)

In the year 1973, the International Accounting Standards Committee (IASC) was established so as to have international harmonization of accounting standards. In the year 2001, it has been reconstituted as the International Accounting Standards Board (IASB), under newly Constituted International Accounting Standards Committee Foundation. The objectives of IASB includes promotion of the International Accounting Standards for worldwide acceptance and observance so that the accounting standards in different countries are harmonized.

In recent years, need for international harmonization of Accounting Standards followed in different countries has grown considerably as the cross-border transfers of capital are becoming increasingly common. In total, there are presently effective 25 IAS issued by IASC and 16 IFRS issued by IASB, thus totaled International standards in force are 41. IFRS has become the global language of financial reporting with its adoption by over 100 countries.

Need of convergence of IFRS as Global Standards

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRSs issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRSs requirements and extensive discussion with various stakeholders. Accordingly, while formulating IFRS-converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/ IFRS and departures have been made where considered absolutely essential.

Significance of issue of Indian Accounting Standards

Global Standards facilitate cross border flow of money, global listing in different bourses and comparability of financial statements. Global Standards improve the ability of investors to compare investments on a global basis and thus lowers their risk of errors of judgment. It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements.

Accounting Standards

The Institute of Chartered Accountants of India (ICAI) constituted the Accounting Standards Board (ASB) on 21st April, 1977, with a view to harmonize the diverse accounting policies and practices in use in India. 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 ASB has 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. These include:

(i) Elected
(ii) Ex-officio
(iii) Nominees of / Special invitees from :
- Associated Chambers of Commerce & Industry (ASSOCHAM)
- Federation of Indian Chambers of Commerce and Industry (FICCI)
- Reserve Bank of India (RBI)
- Union Grant Commission (UGC)
- Indian Institutes of Management (IIM)
- Institute of Cost and Works Accountants of India (ICWAI){Now re-named ICAI}
- Institute of Company Secretaries of India (ICSI)
- Securities Exchange Board of India (SEBI)
- Industrial Development Bank of India (IDBI)

The Accounting Standards-setting Process:
The accounting standard setting process attempts to have an optimal balance of the requirements of financial information for various interest-groups. To bring about general acceptance of the Accounting Standards among various interest groups, considerable research, consultations and discussions take place to reach consensus, to the extent possible. The standard-setting procedure of the ASB is briefly outlined below:

- Identification of the broad areas by the ASB for formulating the Accounting Standards.
- Constitution of the study groups by the ASB for preparing the preliminary drafts of the proposed Accounting Standards.
- Consideration of the preliminary draft prepared by the study group by the ASB and revision, if any, of the draft on the basis of deliberations at the ASB.
- Circulation of the draft, so revised to 12 specified outside bodies such as Standing Conference of Public Enterprises (SCOPE), Indian Banks' Association, Confederation of Indian Industry (CII), Securities and Exchange Board of India (SEBI), Comptroller and Auditor General of India (C& AG), Central Board of Direct Taxes (CBDT), Central Board of Excise and Customs (CBEC) and Department of Company Affairs, for comments.
- Meeting with the representatives of specified outside bodies to ascertain their views on the draft of the proposed Accounting Standard.
- Finalization of the Exposure Draft of the proposed Accounting Standard on the basis of comments received and discussion with the representatives of specified outside bodies.
- Issuance of the Exposure Draft inviting public comments.
- Consideration of the comments received on the Exposure Draft and finalization of the draft Accounting Standard by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance.
- Consideration of the draft Accounting Standard by the Council of the Institute, and if found necessary, modification of the draft in consultation with the ASB.
- The Accounting Standard, so finalised, is issued under the authority of the Council.

The council of the Institute of Chartered Accountants of India has issued 29 Accounting Standards. However, AS 8 on 'Accounting for research and development' has been withdrawn consequent to the issuance of AS 26 on 'Intangible Assets' and AS 6 on 'Depreciation Accounting' has been withdrawn consequent to the issuance of Revised AS 10 on 'Property Plant and Equipment' . Thus effectively, there are 27 Accounting Standards at present.

Benefits of Accounting Standards:	**Limitations of Accounting Standards:**
(1) Standardisation of alternative accounting treatments (2) Requirements for additional disclosure (3) Comparability of financial statements	(1) Difficulties in making choice between different accounting treatments (2) Lack of flexibilities (3) Restricted scope : Accounting Standards cannot override the statute.

National Advisory Committee on Accounting Standards (NACAS): To advise the Central Government on formulation and laying down of the accounting standards for adoption by companies.

The Companies (Accounting Standards) Rules, 2006: On the recommendations of NACAS, the Ministry of Company Affairs had issued rules named 'Companies (Accounting Standards) Rules, 2006'.

NFRA: The National Financial Reporting Authority has been constituted under Section 132 of Companies Act, 2013 to advise the Central Government on formulation and laying down of the accounting standards for adoption by companies or class of companies. It will replace NACAS.

CATEGORISATION OF ENTITIES FOR THE APPLICABILITY OF VARIOUS ACCOUNTING STANDARDS

For the purpose of applicability of Accounting Standards, Non-company entities are classified into four categories, viz., Level I, Level II, Level III and Level IV.

Level I entities are large size entities	Level II entities are medium size entities	Level III entities are small size entities	Level IV entities are micro entities

Level IV, Level III and Level II entities are referred to as Micro, Small and Medium size entities (MSMEs).

Level I entities are required to comply in full with all the Accounting Standards.
Certain exemptions/relaxations have been provided to Level II, Level III and Level IV Non-company entities.

Level-I Entities		**Level-II Entities**		**Level-III Entities**		**Level-IV Entities**
*	Entities whose equity or debt securities are listed whether in India or outside India		—		—	Entities which are not covered under Level-I, Level-II and Level-III are considered as Level-IV Entities
*	Entities which are in the process of listing their equity or debt securities whether in India or outside India		—		—	
*	Banks including co-operative banks		—		—	
*	Financial Institutions		—		—	
*	Entities carrying on Insurance business		—		—	
*	All commercial, industrial and business reporting Entities, whose turnover (excluding other income) exceeds ₹ 250 crores in the immediately preceding accounting year	*	All commercial, industrial and business reporting Entities, whose turnover (excluding other income) exceeds ₹ 50 crores but does not exceed ₹ 250 crores in the immediately preceding accounting year	*	All commercial, industrial and business reporting Entities, whose turnover (excluding other income) exceeds ₹ 10 crores but does not exceed ₹ 50 crores in the immediately preceding accounting year	
*	All commercial, industrial and business reporting Entities having borrowings (including public	*	All commercial, industrial and business reporting Entities having borrowings	*	All commercial, industrial and business reporting Entities having borrowings	

	deposits) in excess of ₹ 50 crore at any time during the immediately preceding accounting year		(including public deposits) in excess of ₹ 10 crores but does not exceed ₹ 50 crores at any time during the immediately preceding accounting year.		(including public deposits) in excess of ₹ 2 crores but does not exceed ₹ 10 crores at any time during the immediately preceding accounting year.	
*	Holding and Subsidiary Entities of above	*	Holding and Subsidiary Entities of above	*	Holding and Subsidiary Entities of above	

Additional Information:

1	2	3	4	5	6
An MSME which avails the exemptions or relaxations given to it shall disclose (by way of a note to its financial statements) the fact that it is an MSME, the Level of MSME and that it has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III or Level IV, as the case may be.	Where an entity, being covered in Level II or Level III or Level IV, had qualified for any exemption or relaxation previously but no longer qualifies for the relevant exemption or relaxation in the current accounting period, the relevant standards or requirements become applicable from the current period and the figures for the corresponding period of the previous accounting period need not be revised merely by reason of its having ceased to be covered in Level II or Level III or Level IV, as the case may be. The fact that the entity was covered in Level II or Level III or Level IV, as the case may be, in the previous period and it had availed of the exemptions or relaxations available to that Level of entities shall be disclosed in the notes to the financial statements. The fact that previous period figures have not been revised shall also be disclosed in the notes to the financial statements.	Where an entity has been covered in Level I and subsequently, ceases to be so covered and gets covered in Level II or Level III or Level IV, the entity will not qualify for exemption/relaxation available to that Level, until the entity ceases to be covered in Level I for two consecutive years. Similar is the case in respect of an entity, which has been covered in Level II or Level III and subsequently, gets covered under Level III or Level IV.	If an entity covered in Level II or Level III or Level IV opts not to avail of the exemptions or relaxations available to that Level of entities in respect of any but not all of the Accounting Standards, it shall disclose the Standard(s) in respect of which it has availed the exemption or relaxation.	If an entity covered in Level II or Level III or Level IV opts not to avail any one or more of the exemptions or relaxations available to that Level of entities, it shall comply with the relevant requirements of the Accounting Standard.	An entity covered in Level II or Level III or Level IV may opt for availing certain exemptions or relaxations from compliance with the requirements prescribed in an Accounting Standard: Provided that such a partial exemption or relaxation and disclosure shall not be permitted to mislead any person or public.

As per Companies (Accounting Standards) rules, 2006: Entities are classified in two categories only.

There is no distinction between Level-II, Level-III and Level-IV. They are combined termed as small & Medium Scale companies (SMCs).	**Level-I is termed as "other than SMCs"**

Special Points:

(a)	**Shifting to lower category**	
	Enterprises covered under Level-I, subsequently ceases to be covered under Level-I	Such enterprise continues to be considered as Level-I enterprise for compliance of accounting standards unless cessation is for 2 consecutive years
	Similar rule for Level-II enterprises	If subsequently moves to lower level, will continue to be considered as Level-II enterprise, unless cessation is for 2 consecutive years.
	Similar rule for Level-III enterprises	If subsequently moves to lower level, will continue to be considered as Level-III enterprise, unless cessation is for 2 consecutive years.
(b)	**Shifting to higher category**	
	Enterprises not covered under Level-I, subsequently covered	Compliance as Level-I enterprise becomes mandatory from current period. However, previous year figures need not be disclosed.
	Similar rule for Level-II enterprises	Compliance as Level-II enterprise becomes mandatory from current period. However, previous year figures need not be disclosed.
	Similar rule for Level-III enterprises	Compliance as Level-III enterprise becomes mandatory from current period. However, previous year figures need not be disclosed.

APPLICABILITY OF ACCOUNTING STANDARDS TO VARIOUS ENTITIES [To mention a few]

AS	Level-I Entities	Level-II Entities	Level-III Entities	Level-IV Entities
1	Applicable	Applicable	Applicable	Applicable
2	Applicable	Applicable	Applicable	Applicable
3	Applicable	Not applicable	Not applicable	Not applicable
10	Applicable	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption
11	Applicable	Applicable	Applicable with disclosures exemption	Applicable with disclosures exemption
12	Applicable	Applicable	Applicable	Applicable
13	Applicable	Applicable	Applicable	Applicable with disclosures exemption
16	Applicable	Applicable	Applicable	Applicable

QUESTION 1

What are the issues, with which Accounting Standards deal?

ANSWER

Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. Accounting Standards reduce the accounting alternatives in the preparation of financial statements and ensure standardization of alternative accounting treatments and comparability of financial statements of different enterprises. Accounting Standards deal with the issues of:

(i) Recognition of events and transactions in the financial statements,

(ii) Measurement of these transactions and events,

(iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and

(iv) Disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors, in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

(v)

QUESTION 2

A company was classified as Non-SMC in 20X1-X2. In 20X2-X3, it has been classified as SMC. The management desires to avail the exemptions or relaxations available for SMCs in 20X2-X3. However, the accountant of the company does not agree with the same. Comment.

ANSWER

As per Companies (Accounting Standards) Rules, 2021, an existing company, which was previously not a SMC and subsequently becomes a SMC, should not be qualified for exemption or relaxation in respect of accounting standards available to a SMC until the company remains a SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions/ relaxations available to the SMCs for the FY 20X2-X3.

QUESTION 3

M/s Omega & Co. (a partnership firm), had a turnover of ₹ 1.25 crores (excluding other income) and borrowings of ₹ 0.95 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.20X1. Advise the management of M/s Omega & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI.

ANSWER

The question deals with the issue of Applicability of Accounting Standards to a noncorporate entity. For availment of the exemptions, first of all, it has to be seen that M/s Omega & Co. falls in which level of the non-corporate entities. Its classification will be done on the basis of the classification of non-corporate entities as prescribed by the ICAI.

According to the ICAI, non-corporate entities can be classified under 4 levels viz Level I, Level II, Level III and Level IV entities.

Non-corporate entities which meet following criteria are classified as Level IV entities:

(i) All entities engaged in commercial, industrial or business activities, whose turnover (excluding other income) does not exceed rupees ten crores in the immediately preceding accounting year.

(ii) All entities engaged in commercial, industrial or business activities having borrowings (including public deposits) does not exceed rupees two crores at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

As the turnover of M/s Omega & Co. is less than ₹ 10 crores and borrowings less than ₹ 2 crores, it falls under Level IV non-corporate entities. In this case, certain accounting standards will not be applicable to M/s Omega & Co. Relaxations from certain requirements in respect of some other accounting standards are also available to M/s Omega & Co.

QUESTION 4

Explain the objective of "Accounting Standards" in brief. State the advantages of setting Accounting Standards.

ANSWER

Accounting Standards are selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. These standards harmonize the diverse accounting policies and practices at present in use in India. The main advantage of setting accounting standards is that the adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

QUESTION 5

Explain the need of convergence of IFRS as Global Standards.

ANSWER

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRSs issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRSs requirements and extensive discussion with various stakeholders. Accordingly, while formulating IFRS-converged Indian Accounting Standards (Ind AS), efforts have been made to keep these Standards, as far as possible, in line with the corresponding IAS/ IFRS and departures have been made where considered absolutely essential.

QUESTION 6

What is the significance of issue of Indian Accounting Standards?

Answer:

Global Standards facilitate cross border flow of money, global listing in different bourses and comparability of financial statements. Global Standards improve the ability of investors to compare investments on a global basis and thus lowers their risk of errors of judgment. It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements.

QUESTION 7

List the criteria to be applied for rating a non-corporate entity as Level-I entity for the purpose of compliance of Accounting Standards in India.

QUESTION 8

List the criteria to be applied for rating a non-corporate entity as Level-II entity for the purpose of compliance of Accounting Standards in India.

QUESTION 9

List the criteria to be applied for rating a non-corporate entity as Level-III entity for the purpose of compliance of Accounting Standards in India.

QUESTION 10

MCQ

1. Non-corporate entities which are not Level I entities whose turnover (excluding other income) exceeds rupees ___________ but does not exceed rupees two-fifty crores in the immediately preceding accounting year are classified as Level II entities.
   (a) five crores (b) two crores (c) fifty crores
2. The following Accounting Standard is not applicable to Non-corporate Entities falling in Level II in its entirety.
   (a) AS 10 (b) AS 3 (c) AS 2
3. All non-corporate entities engaged in commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees 250 crores in the immediately preceding accounting year, are classified as
   (a) Level II entities (b) Level I entities (c) Level III entities
4. All non-corporate entities engaged in commercial, industrial or business activities having borrowings (including public deposits) in excess of rupees two crores but does not exceed rupees ten crores at any time during the immediately preceding accounting year.
   (a) Level II entities (b) Level IV entities (c) Level III entities
5. "Small and Medium Sized Company" (SMC) means, a company-
   (a) which may be a bank, financial institution or an insurance company.
   (b) whose turnover (excluding other income) does not exceed rupees two fifty crores in the immediately preceding accounting year;
   (c) whose turnover (excluding other income) does not exceed rupees fifty crores in the immediately preceding accounting year;

ANSWER

1. (c), 2. (b), 3. (b) 4. (c) 5. (b)

QUESTION 11

XYZ Ltd., with a turnover of ₹ 50 crores during previous year and borrowings of ₹ 1 crore during any time in the previous year, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.20X1. Advise the management on the exemptions that are available as per the Companies (Accounting Standards) Rules, 2021.

ANSWER

The question deals with the issue of Applicability of Accounting Standards for corporate entities. The companies can be classified under two categories viz SMCs and Non SMCs under the Companies (Accounting Standards) Rules, 2021.

As per the Companies (Accounting Standards) Rules, 2021, criteria for above classification as SMCs, are: "Small and Medium Sized Company" (SMC) means, a company-

- whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- which is not a bank, financial institution or an insurance company;
- whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;
- which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
- which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover was ₹ 50 crores which does not exceed ₹ 250 crores and borrowings of ₹ 1 crore are less than ₹ 50 crores, it is a small and medium sized company (SMC).

LIST OF ACCOUNTING STANDARDS

AS 1	Disclosure of Accounting Policies
AS 2	Valuation of Inventories (Revised)
AS 3	Cash Flow Statements (Revised)
AS 4	Contingencies and Events Occurring after the Balance Sheet Date (Revised)
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies (Revised)
AS 6	**Deleted**
AS 7	Accounting for Construction Contracts (Revised)
AS 8	**Deleted**
AS 9	Revenue Recognition
AS 10	Property, Plant and Equipment
AS 11	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	Employee Benefits (Revised)
AS 16	Borrowing Costs
AS 17	Segment Reporting
AS 18	Related Party 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 Ventures
AS 28	Impairment of Assets
AS 29	Provisions, Contingent Liabilities & Contingent Assets