UNIT V – Indian Accounting Standards (Ind–AS)

Introduction

Accounting is generally referred as a language of business. The basic function of any language is communication. Accounting also does the same function by communicating the results of business operations to various interested parties such as proprietor, creditors, financial institutions, employees, Govt. agencies etc. 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 organization to other. As a result ranges of accounting methods were adopted by different companies. This has ultimately resulted in confusion in terms of variations in the methods used to prepare financial statements. In order to avoid the confusion, several accounting standard setting bodies were established in developed countries.

Financial Statements have incredible importance for both internal and external stakeholders. They basically are a report card for the company. So it is important that they are regulated and do not report misleading information. And the Accounting Standards (AS) provides us with a framework for this regulation.

Meaning of Accounting Standard:

Accounting standards is a set statement of code of practice of the regulatory accounting bodies that are to be followed in the preparation and presentation of financial statements. On the other hand, accounting standards are the written documents issued by the regulatory bodies covering various aspects of guidelines, treatment and disclosure of accounting transactions.

Definition of Accounting Standard:

The term accounting standard may be defined as written statements issued from time to time by institutions of the accounting profession or institution in which it has sufficient involvement and which are established expressly for this purpose. Such accounting institutions /bodies are currently found in many countries of the world, e.g., Accounting Standards Board, (INDIA). Financial Accounting Standards Board (USA), Accounting Standards Board (UK) Accounting Standards Committee (CANADA), etc. At the international level, International Accounting Standards Board (IASB) has been created “to formulate and publish, in the public interest, basic standards to be observed in the presentation of audited accounts and financial statements and to promote their world wide acceptance and observance.

Significance of Accounting Standards (AS)

Accounting Standards (AS) are basic policy documents. Their main aim is to ensure transparency, reliability, consistency, and comparability of the financial statements. They do so by standardizing accounting policies and principles of a nation/economy. So the transactions of all companies will be recorded in a similar manner if they follow these accounting standards.

This Accounting Standards (AS) is issued by an accounting body or a regulatory board or sometimes by the government directly. In India, the Indian Accounting Standards are issued by the Institute of Chartered Accountants of India (ICAI).

Indian Accounting Standard (Ind-AS)

Indian Accounting Standard (Ind-AS) is the Accounting standard adopted by companies in India and issued under the supervision and control of Accounting Standards Board (ASB), which was constituted as a body in the year 1977. ASB is a committee under Institute of Chartered Accountants of India (ICAI) which consists of representatives from government department, academicians, other professional bodies' viz. ICAI, representatives from ASSOCHAM, Confederation of Indian Industries (CII), Federation of Indian Chambers of Commerce and industry (FICCI), etc.

The Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS). National Advisory Committee on Accounting Standards (NACAS) recommends these standards to the Ministry of Corporate Affairs (MCA). MCA has to spell out the accounting standards applicable for companies in India. As on date MCA has notified 39 Ind AS. This shall be applied to the companies of financial year 2015-16 voluntarily and from 2016-17 on a mandatory basis. The application of Ind AS is based on the listing status and net worth of a company.

Accounting Standards mainly deal with four major issues of accounting, namely

i. Recognition of financial events
ii. Measurement of financial transactions
iii. Presentation of financial statements in a fair manner
iv. Disclosure requirement of companies to ensure stakeholders are not misinformed

Objectives of Accounting Standards

Accounting is often considered the language of business, as it communicates to others the financial position of the company. And like every language has certain syntax and grammar rules the same is true here. These rules in the case of accounting are the Accounting Standards (AS). They are the framework of rules and regulations for accounting and reporting in a country. Let us see the main objectives of forming these standards.

1. The main aim is to improve the reliability of financial statements. Now because the financial statements have to be made following the standards the users can rely on them. They know that not conforming to these standards can have serious consequences for the companies.
2. Then there is comparability. Following these standards will allow for inter-firm and intra-firm comparisons. This allows us to check the progress of the firm and its position in the market.
3. It also looks to provide one set of accounting policies that include the necessary disclosure requirements and the valuation methods of various financial transactions.

Benefits of Accounting Standards

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.

So it is essential these statements present a true and fair picture of the financial situation of the company. The Accounting Standards (AS) ensures this. They make sure the statements are reliable and trustworthy.

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.

Also, two statements of the same company from different years can be compared. This will show the growth curve of the company to the users.

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.

Management also must wisely choose their accounting policies. Constant changes in the accounting policies lead to confusion for the user of these financial statements. Also, the principle of consistency and comparability are lost.

Formulation of Accounting Standards in India

Since 1977 after the government passed a statute, the Accounting Standard Board (ASB) a committee of the ICAI has been responsible for the formulation of accounting standards in India. Let us take a brief look at the functioning of the ASB and the procedure behind the formulation of accounting standards in India.

Accounting Standard Board

ICAI is the highest accounting body in the country. And the ASB is a committee of the ICAI. But to ensure maximum transparency and independence, the ASB is a completely independent body.

The ASB formulates all the accounting standards for the Indian companies. This process is fully transparent, very thorough and completely independent of any government involvement. While framing the standards the ASB will try and incorporate the IFRS and its principles in the Indian standards. While India does not plan to adopt the IFRS, this process will help the convergence of the two standards. So the ASB will modify the IFRS to suit the laws, customs and common usage in the country.

The ASB is composed of various members. There are representatives of industries like the FICCI and ASSOCHAM. There are also certain government officials, a few academics, and regulators from various departments. The idea is to make the ASB as inclusive and representative as possible.

Procedure for Issuing/Setting/Formulating of Accounting Standards in India

Let us take a brief look at the procedure setting process that the ASB follows

- First, the ASB will identify areas where the formulation of accounting standards may be needed
- Then the ASB will constitute study groups and panels to discuss and study the topic at hand. Such panels will prepare a draft of the standards. The draft normally includes the definition of important terms, the objective of the standard, its scope, recognition and measurement principles and the representation of said data in the financial statements.
- The ASB then carries out deliberations of the said draft of the standard. If necessary changes and revisions are made.
- Then this preliminary draft is circulated to all concerned authorities. This will generally include the members of the ICAI, and any other concerned authority like the Department of Company Affairs (DCA), the SEBI, the Central Board of Direct taxes (CBDT), Standing Conference of Public Enterprises (SCPE), Comptroller and Auditor General of India etc. These members and departments are invited to give their comments.
- Then the ASB arranges meetings with these representatives to discuss their views and concerns about the draft and its provisions
- The exposure draft is then finalized and presented to the public for their review and comments
- The comments by the public on the exposure draft will be reviewed. Then a final draft will be prepared for the review and consideration of the ICAI
- The Council of the ICAI will then review and consider the final draft of the standard. If necessary they may suggest a few modifications in consultation with ASB

- Finally, the Accounting Standard on the relevant subject is then issued under the authority of the council.

Salient Features of Ind – AS issued by ICAI

Ind AS	**Objective/ Deals with**
Ind AS 101 – First-time adoption of Ind AS	Its main objective is to prepare first financial statements as per Ind AS containing high quality information that is transparent, comparable and prepared at economical cost, suitable starting point for accounting in accordance with Ind AS.
Ind AS 102 – Share Based payments	It deals with accounting of share-based payment transactions and reflect effect of such payment on profit or loss and financial statements of entity.
Ind AS 103 – Business Combination	It applies to transaction or other event that meets the definition of a business combination. This standard helps in improving the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects.
Ind AS 104 – Insurance Contracts	This standard specifies financial reporting for insurance contracts by insurer entity.
Ind AS 105 – Non-Current Assets Held for Sale and Discontinued Operations	This standard specifies accounting for assets held for sale, and presentation and disclosure of discontinued operations.
Ind AS 106 – Exploration for and Evaluation of Mineral Resources	This standard specifies financial reporting for exploration and evaluation of mineral resources.

Ind AS 107 – Financial Instruments: Disclosures	This standard require entities to provide disclosures related to financial instruments that will enable users to evaluate significance of financial instruments for entity's financial position and performance and nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.
Ind AS 108 – Operating Segments	This standard discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.
Ind AS 109 – Financial Instruments	This Standard establish principles for financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.
Ind AS 110 – Consolidated Financial Statements	This standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
Ind AS 111 – Joint Arrangements	This standard establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (known as joint arrangements).
Ind AS 112 – Disclosure of Interests in Other Entities	This standard requires an entity to disclose information that enables users of its financial statements nature risk and effect of such interest in other entities.
Ind AS 113 – Fair Value Measurement	This standard defines fair value, set outs framework for measuring fair value and disclosures about fair value measurements. Such fair measurement principle will apply when another Ind AS requires or permits use of fair value.
Ind AS 114 –	This Standard specifies financial reporting requirements

Regulatory Deferral Accounts	for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation.
Ind AS 115 – Revenue from Contracts with Customers	This Standard establishes principles that an entity shall apply to report useful information to users of financial statements about nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.
Ind AS 1 – Presentation of Financial Statements	This standard sets out overall requirements for presentation of financial statements, guidelines for their structure and minimum requirements for their content to ensure comparability.
Ind AS 2 – Inventories Accounting	Its deals with accounting of inventories such as measurement of inventory, inclusions and exclusions in its cost, disclosure requirements, etc.
Ind AS 7 – Statement of Cash Flows	It deals with cash received or paid during the period from operating, financing and investing activities. It also shows any change in the cash and cash equivalents of any entity.
Ind AS 8 – Accounting Policies, Changes in Accounting Estimates and Errors	It prescribes criteria for selecting and changing accounting policies together with accounting treatments and disclosures.
Ind AS 10 – Events after Reporting Period	It deals with any adjusting or non-adjusting event occurring after reporting date and
Ind AS 12 – Income Taxes	This standard prescribes accounting treatment for income taxes. The principal issue in accounting for income taxes is how to account for the current and future tax
Ind AS 16 – Property, Plant and Equipment	This standard prescribes accounting treatment for Property, Plant And Equipment (PPE) such as recognition of assets, determination of their carrying

	amounts and the depreciation charges and impairment losses to be recognised in relation to them.
Ind AS 116 – Leases	This standard prescribes appropriate accounting policies and principle for lessees and lessors.
Ind AS 19 – Employee Benefits	This standard prescribes accounting and disclosure requirements relating to employee benefits.
Ind AS 20 – Accounting for Government Grants and Disclosure of Government Assistance	This Standard shall be applied in accounting for and in disclosure of, government grants and in disclosure of other forms of government assistance.
Ind AS 21 – The Effects of Changes in Foreign Exchange Rates	This Standard prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency.
Ind AS 23 – Borrowing Costs	It provides borrowing cost incurred on qualifying asset should form part of that asset, it also guides on which finance cost should be capitalised, conditions for capitalisation, time of commencement and cessation of capitalisation of borrowing cost.
Ind AS 24 – Related Party Disclosures	This standard ensures that an entity's financial statements contains necessary disclosures to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances.
Ind AS 27 – Separate Financial Statements	This Standard prescribes accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

Ind AS 28 – Investments in Associates and Joint Ventures	This standard prescribes accounting for investments in associates and to set out requirements for the application of equity method when accounting for investments in associates and joint ventures.
Ind AS 29 – Financial Reporting in Hyperinflationary Economies	This standard will give inclusive list of characteristics that will categorise an economy as hyper inflationary and reporting of operating results and financial position.
Ind AS 32 – Financial Instruments: Presentation	This Standard establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities.
Ind AS 33 – Earnings per Share	This Standard prescribe principles for the determination and presentation of earnings per share
Ind AS 34 – Interim Financial Reporting	This Standard prescribes minimum content of an interim financial report and principles for recognition & measurement in complete or condensed financial statements for an interim period.
Ind AS 36 – Impairment of Assets	This Standard prescribes procedures that an entity applies to ensure that an asset’s carrying amount is not more than its recoverable amount.
Ind AS 37 – Provisions, Contingent Liabilities and Contingent Assets	This Standard ensures that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and proper disclosures are made in the notes to enable users to understand their nature, timing and amount.
Ind AS 38 – Intangible Assets	This Standard prescribes accounting treatment for intangible assets. It specifies conditions for recognition of intangible asset and how to measure carrying amount

	at which intangible asset should be recognised.
Ind AS 40 – Investment Property	This Standard prescribes accounting treatment for investment property and related disclosure requirements.
Ind AS 41 – Agriculture	This Standard prescribes accounting treatment and disclosures related to agricultural activity.