INTRODUCTION TO ACCOUNTING STANDARDS

Meaning of AS	Accounting standards are **written policy documents** issued **by expert accounting body** or **by government** with the support of other regulatory bodies (*e.g. MCA issuing AS for corporates in consultation with NFRA)* covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements.
Issues dealt by AS	➢ **Recognition** of events and transactions in the financial statements. ➢ **Measurement** of these transactions and events. ➢ **Presentation** of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader. ➢ The **disclosure** requirements which should be there to enable public at large, the stakeholders and potential investors in particular, to get an insight in to what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.
Benefits	➢ Standardization of alternative accounting treatment. ➢ Requirement for additional disclosures. (disclosures which are not statutorily required) ➢ Comparability of financial statements.
Limitations	➢ Difficulties in making choice between different treatments. ➢ Lack of flexibilities ➢ Restricted scope (accounting standards cannot override the statute)
Standards setting process	ICAI has constituted the Accounting Standard Board (ASB) in 1977. ASB is responsible for setting accounting standards. Although ASB is a body constituted by council of ICAI, it is independent in the formulation of accounting standards and council of ICAI is not empowered to make any modifications in the draft AS formulated by ASB without consulting with the ASB.
Process	➢ Identification of area (where standardization is required) ➢ Constitution of study groups (for research) ➢ Preparation of draft and its circulation ➢ Ascertainment of views of different bodies on draft (like SEBI, CBDT, C&AG) ➢ Finalization of exposure draft ➢ Comments reviewed on exposure draft (public comments) ➢ Modification of the draft ➢ Issue of AS • For Non Corporate Entities by ICAI • For Corporate Entities by Central Government of India

Accounting Standards

INDIA

Accounting Standard Board
[Established in 1977]

↓

Accounting Standards (AS)

↓

Ind AS (IFRS converged Standards)

INTERNATIONAL

International Accounting Standard Committee (Board)
[Established in 1973]

↓

International Accounting Standards (IAS)

↓

International Financial Reporting Standards (IFRS)

Accounting Standards (India)

AS	AS	Ind AS
(ICAI with ASB)	(MCA 2006 with NACAS)	(MCA 2015 with NACAS) NFRA
No: 1 to 32	No: 1 to 29	No: >40
[-6, -8, -30, -31, -32]	[-6, -8]	

- Rule based Standards
- Substance over form ↓
- Limited use of Fair value concept

- Principle based standards
- Substance over form ↑
- More use of Fair value Concept

NEED FOR CONVERGENCE TOWARDS GLOBAL STANDARDS

Each country has its own set of rules and regulations for accounting and financial reporting. Therefore, when an enterprise decides to raise capital from the markets other than the country in which it is located, the rules and regulations of that other country will apply and this in turn will require that the enterprise is in a position to understand the differences between the rules governing financial reporting in the foreign country as compared to its own country of origin.

International analysts and investors would like to compare financial statements based on similar accounting standards, and this has led to the growing support for an internationally accepted set of accounting standards for cross-border filings.

SIGNIFICANCE:

- Global Standards facilitate cross border flow of money, global listing in different stock markets and comparability of financial statements.
- The convergence of financial reporting and Accounting Standards is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders.
- It improves the ability of investors to compare investments on a global basis and, thus, lower 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

INTERNATIONAL FINANCIAL REPORTING STANDARDS AS GLOBAL STANDARDS

The term **International Financial Reporting Standards (IFRS)** comprises IFRS issued by IASB; IAS issued by International Accounting Standards Committee (IASC); Interpretations issued by the Standard Interpretations Committee (SIC) and the IFRS Interpretations Committee of the IASB.
International Financial Reporting Standards (IFRSs) are considered a "principles based" set of standards. In fact, they establish broad rules rather than dictating specific treatments.

BECOMING IFRS COMPLIANT

Any country can become IFRS compliant ***either*** by adoption process or by convergence process. Adoption would mean that the country sets a specific timetable when specific entities would be required to use IFRS as issued by the IASB.
Convergence means that the country will develop high quality, compatible accounting standards over time. Convergence means alignment of the standards of different standard setters with a certain rate of compromise, by adopting the requirements of the standards either fully or partially. Indian Accounting Standards are almost similar to IFRS but with few carve outs so as to make them suitable for Indian Environment.

Convergence with IFRS will result in following benefits:

- Improves investor confidence across the world with transparency and comparability
- Improves inter-unit/ inter-firm/inter-industry comparison
- Group consolidation will be easy with same standard by all companies in group irrespective of their global location.
- Acceptability of financial statements stock exchanges across the globe, which will facilitate entry of any Indian company to any stock exchange.

ISSUE OF IND AS

The Government of India in consultation with the ICAI decided to converge and not to adopt IFRS issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS 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.

Indian Accounting Standards (Ind AS) are IFRS converged standards issued by the Central Government of India under the supervision and control of Accounting Standards Board (ASB) of ICAI and in consultation with NFRA.
Ind AS are named and numbered in the same way as the corresponding International Financial Reporting Standards (IFRS).

In ***July 2014***, the Finance Minister of India at that time, Shri Arun Jaitely ji, in his Budget Speech, announced an urgency to converge the existing accounting standards with the International Financial Reporting Standards (IFRS) through adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies

The Ministry of Corporate Affairs (MCA) has issued the Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 covering the revised roadmap of implementation of Ind AS for companies other than Banking companies, Insurance Companies and NBFCs and Indian Accounting Standards (Ind AS).

As per the Notification, Indian Accounting Standards (Ind AS) converged with International Financial Reporting Standards (IFRS) shall be implemented on voluntary basis from 1st April, 2015 and mandatorily from 1st April, 2016. Separate roadmaps have been presecribed for implementation of Ind AS to Banking, Insurance companies and NBFCs respectively.

Classification Criteria for Accounting Standards

Non Corporate Entities

Level I

- Entity whose equity / debt securities are listed or in process of listing
- Banks, Financial Institutions, Insurance business
- T/O (Excluding Other Income) > 50 crore
- Borrowings > 10 crore
- Holding & subsidary of Above

Level II

- T/O > 1cr ≤ 50 crore
- Borrowings > 1cr ≤ 10 crore
- Holding & Subsidary of above

Level III

- Others

Corporate Entities (Co's A/cing Std. Rules 2006)

SMC's → Level II + Level III

Non SMC → Level I

Exemptions / Relaxations:

AS not applicable to Level II / SMC's in Entirety:

AS-3, AS-17, AS-21, AS-23, AS-27

AS not applicable to Level III entities in entirety:

All 5 above, AS-18, AS-24

Relaxations from certain Requirements to Level II/III & SMC's

AS-15, AS-19, AS-20, AS-28, AS-29

Note: *Where an entity has been covered in Level I and subsequently, ceases to be so covered, the entity will not qualify for exemption/relaxation available to Level II entities, 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 I or Level II and subsequently, gets covered under Level III.*

APPLICABILITY/CLASSIFICATION

Enterprises to which Accounting Standards apply

Accounting Standards apply in respect of any enterprise (whether organised in corporate, cooperative or other forms) engaged in commercial, industrial or business activities, whether or not profit oriented and even if established for charitable or religious purposes.

AS however, do not apply to enterprises solely carrying on the activities, which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the AS would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature.

Even if a very small proportion of activities of an enterprise were considered to be commercial, industrial or business in nature, the AS would apply to all its activities including those, which are not commercial, industrial or business in nature

LEGAL PROVISION: COMPANIES ACT 2013

- Section 129 (1) of the Companies Act, 2013 requires companies to present their financial statements in accordance with the accounting standards notified under Section 133 of the Companies Act, 2013.
- Also, the auditor is required by Section 143(3)(e) to report whether, in his opinion, the financial statements of the company audited, comply with the accounting standards referred to in Section 133 of the Companies Act, 2013.
- As per Section 133 of the Companies Act, 2013, the Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the ICAI in consultation with and after examination of the recommendations made by the National Financial Reporting Authority (NFRA)

Criteria for classification of non-corporate entities by ICAI

Level	Criterion
Level I Entities	Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities: (i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India. (ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business. (iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds Rs. 50 crore in the immediately preceding accounting year. (iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of Rs. 10 crore at any time during the immediately preceding accounting year. (v) Holding and subsidiary entities of any one of the above.
Level II Entities	Non-corporate entities which are not level I entities but fall in any one or more of the following categories are classified as level II entities: (i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds Rs. 1 crore but does not exceed Rs. 50 crore in the immediately preceding accounting year. (ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of Rs. 1 crore but not in excess of Rs. 10 crore at any time during the immediately preceding accounting year. (iii) Holding and subsidiary entities of any one of the above.
Level III Entities	Non-corporate entities which are not covered under Level I and Level II are considered as Level III entities

Where an entity has been covered in Level I and subsequently, ceases to be so covered, the entity will not qualify for exemption/relaxation available to Level II entities, 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 I or Level II and subsequently, gets covered under Level III.

Criteria for classification of companies as per Companies (Accounting Standards) Rules, 2006

Company	Criterion
SMC	Small and Medium-Sized Company (SMC) as defined in Clause 2(f) of the Companies (Accounting Standards) Rules, 2006: "Small and Medium Sized Company" (SMC) means, a company- (i) 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; (ii) which is not a bank, financial institution or an insurance company; (iii) whose turnover (excluding other income) does not exceed Rs. 50 crore in the immediately preceding accounting year; (iv) which does not have borrowings (including public deposits) in excess of Rs. 10 crore at any time during the immediately preceding accounting year; and (v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company. Explanation: For the purposes of clause (f), a company shall qualify as a Small and Medium Sized Company, if the conditions mentioned therein are satisfied as at the end of the relevant accounting period
Non-SMCs	Companies not falling within the definition of SMC are considered as Non- SMCs.

Exemptions or Relaxations for Non-corporate Entities falling in Level II / Level III and SMC's

AS not applicable to Level II Entities / SMC's in their entirety
AS 3 Cash Flow Statements AS 17 Segment Reporting AS 21 Consolidated Financial Statements AS 23 Accounting for Investments in Associates in Consolidated Financial Statements AS 27 Financial Reporting of Interests in Joint Ventures
AS not applicable to Level III Entities in their entirety
All 5 above AS 18 Related Party Disclosures AS 24 Discontinuing Operations
AS in respect of which relaxations from certain requirements have been given to Level II / Level III Entities and SMCs
AS 15 Employee Benefits AS 19 Leases AS 20 Earnings Per Share AS 28 Impairment of Assets AS 29 Provisions, Contingent Liabilities and Contingent Assets