Ch-1 Introduction to AS

(4-5 marks)

-> Accounting Standards are the written policy documents issued by Expert accounting body of each country.

-> (AS) are Specific Accounting principles and methods of applying those principles.

-> (AS) are written policy documents issued by Government with Support of MCA (Ministry of Corporate affairs). drawing AS with consultation of NFRA (National financial Reporting Authority).

It covers mainly :-
- a) Recognition - Record करें या ना करें
- b) Measurement - Money value क्या होगी
- c) Presentation - Present कैसे करे
- d) Disclosure - Communicate to stake holders

-> Benefits of Accounting Standards
- i) Standardisation of alternative accounting treatment
- ii) Requirements for additional Disclosure
- iii) Comparability of financial statements.

1 enterprise two time periods
- Intra - enterprise 12th vs CA fond.
- Inter - enterprise 12th vs 12th

2 enterprise 1 time periods

(iv) Reduction of Scope for Creative Accounting
↓
It refers to twisting of Accounting policies to produce financial statement favourable to particular Interest group.

International Accounting Standards (IAS)
↓
International financial Reporting Standards (IFRS)

-> With a view to achieving the objective of Setting Global standards, the london based group namely IASC (International Accounting Standards Comittee) Responsible for developing International Accounting standards ~~(June 1973~~ (June 1973)

-> IASC is presently known as IASB (L Board).

-> IASC released IASs (b/w 1973 to 2001)

-> IASB released IFRS (Since 2001)

1973 ———————————— 2001
IASC -> IAS   IASB <= IFRS

Chocolate ice-cream — Vanilla ice cream

Global Standards IFRS — Accounting Standard AS

~~ADOPT~~

Choco-vanilla ice cream → IND-AS

↓

AS Converged with IFRS

* Benefit of Convergence *Important*

(i) Improves Investor confidence across the world with transparency & comparability.

(ii) Improves Inter unit / firm / Industry Comparison

(iii) Group Consolidation will be easy

(iv) Acceptability of financial Statements by ~~Statements~~ Stock Exchange across the globe

* Need of Convergence / process (Imp)

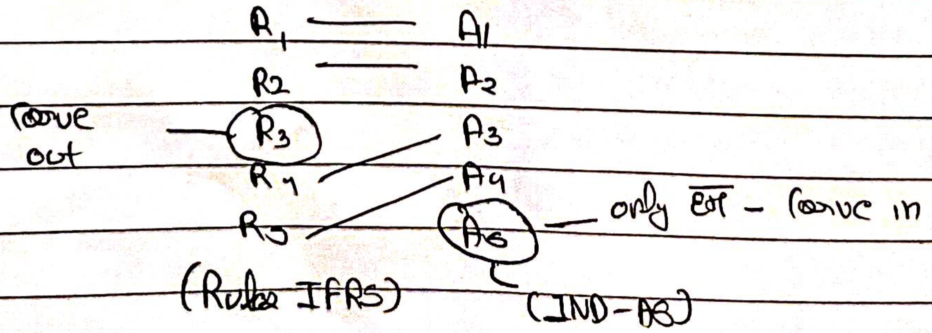
-> Due to recent stream of overseas acquisitions by Indian Companies there is a need of adoption of high quality Standards to Convince foreign enterprise about the financial Standing as also the disclosure and governance Standards of Indian acquires.

-> The Government of India in Consultation with ICAI ~~did~~ decided to Converge and not to adopt IFRS issued by IASB.

-> The ICAI has worked towards Convergence of global accounting Standards and issued IND-AS under the Supervision and Control of ASB and in Consultation with NFRA

* Carve in & Carve out (Imp)

-> Certain changes have been made in Ind AS. Considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as Carve Out. Additional guidance given in Ind-AS over and above what is given in IFRS, is termed as Carve in.



→ other points

- AS 1, 2, 3, 4, 5, 7, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29

8 → 26
6 → 10

At present 27 AS

- IND-AS is mandatory for Companies
- NBFC, Banks & Insurance Co. — Seperate Road map

x——x——x——x——x——x——

Ch-2 Framework for Preparation and presentation of financial statements

- Balance sheet
- Statement of P&L
- Cash flow statement
- Notes to accounts (other disclos

(1) Users of financial statement

a) Investors – Analysis of performance & profitability
b) Employees – knowledge of stability & Growth
c) Creditors (Suppliers) – Creditworthiness of Company
d) Government – Evaluation of Social objectiveness & tax regulation
e) lenders – Timely repayment
f) Public – Determine contribution to the economy

(2) Fundamental Accounting Assumptions :

Going Concern ~~Business will continue~~
Consistency
Accrual

→ Business will continue for foreseeable future and will not liquidate

→ Same Accounting policies should be followed in all accounting periods

→ Transactions are Recorded when they occur, not when they settled.

* If Going Concern Assumption fails then assets are Recorded at Net Realisable value (Refer Vol. 1 , P.P-)

* Accounting policies may be changed :-
  a) If law requires
  b) If AS requires
  c) For better presentation of financial Statement

③ Qualitative characteristics of financial Statements Imp

(i) Understandability - Information presented in financial statement should be Readily understandable by the users.

* (ii) Relevance - It is not right to think that more Information is always better. A mass of irrelevant Information creates confusions and can be even more harmful than non-disclosure.

- It is important to know the following two constraints in these Regard :-

a) timliness - If there is undue delay in the Reporting of Information, it may loose its relevance.

b) Balance between Benefit and Cost. - The benefits derived from Information should exceed the cost of Providing it.

(iii) Reliability - The Information must be Reliable i.e free from bias and material errors

- Principle of Substance over form Should be followed (AS - 1) सच्चाई > कानून

- Transactions & events must be neutral (i.e neutrality) free from bias

- Information must be complete

(iv) Comparability - Financial Statement Should provide Inter firm - Intra firm Comparison.

(4) Elements of Financial Statements

(i) Asset - Resources owned & Controlled by Enterprise, which provide future economic benefit

(ii) liability - Present obligation arising from past event, the Settlement of which is expected to result in outflow of Resources

→ Possible - Contingent liability.

(iii) Equity - Residual Interest in the asset of an enterprise after deducting all liabilities. i.e Net assets

(iv) **Income / gain** – Increase in economic benefit during the accounting period

(v) **Expense / loss** – Decrease in economic benefit during the accounting period.

* $\boxed{\text{Assets} = \text{Equity} + \text{liability}}$

Equity: Income (+), Expenses (−)

(5) Measurement of elements of financial Statements

- → Historical Cost – Acquisition price
- → Current Cost – present cost of similar asset
- → Realisable value (Settlement) – Asset will be Realised (Sold) at this value
- → Present Value – Discount value of future flows

(6) Financial Capital "Maintenance" imp

(i) at Historical Cost - opening & closing asset are Stated at historical cost.

(ii) At current purchasing power - Restatement at closing prices using avg. price index.

(iii) At Physical Capital maintenance - same at Specific price index

closing Capital (at HC / PC / CP)	xxx
(-) opening Capital (at HC / CP / PC)	(xx)
(-) Introduction (Additional) (at HC / CP / PC)	(xx)
Retained Profit / loss	xx / (xx)

x ——— x ——— x ——— x ——— x ———

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Ch=3 Applicability of Accounting Standards

(4-5 marks)

① Criterion for classification of Non-Company entities

→ For the purpose of applicability of AS, Non Company entities are classified into four categories :-

a) level I - large size entities
b) level II - Medium size "
c) level III - Small size "
d) level IV - Micro "

(b), (c), (d) → MSME's

→ Level I entities are required to comply in full with all AS

→ Certain exemptions / relaxations have been provided to MSME's

imp → Level I Entities

a) Whose Securities are listed (or in process of listing) on any Stock Exchange (In India or outside)

b) Banks, financial Institutions, Insurance Co.

★ c) All Entities whose turnover (excluding other income) exceeds 250 Crores in immediately preceding accounting year.

★ d) All Entities whose borrowings (including public deposit) exceeds ₹ 50 Crores at any time during the immediately preceding accounting year

c) Holding & Subsidiary company of any of the above

→ level II entities

a) All entities whose turnover (excluding other income) exceeds ₹ 50 crore but does not exceeds ₹ 250 crore in immediately preceding year.

b) All entities whose borrowings (including public deposit) exceeds ₹ 10 cr. but does not exceed ₹ 50 cr. at any time in immediately preceeding year

c) Holding & Subsidiary of above two

→ level III entities

a) turnover ₹ 10 crore - ₹ 50 crore
b) Borrowing ₹ 2 crore - ₹ 10 crore
c) holding & Subsidiary of above two

→ level IV entities

Those who are not level II, III, I

* An MSME which avails exemption or relaxation given to it shall disclose the fact.

* Where an entity, being MSME, had qualified for any exemption or Relaxation previously "but no longer qualifies for relevant exemption in the current Accounting period", the relevant AS become applicable from the current period only.

And the figures for corresponding period of the accounting period need not to be revised. The fact that previous figures have ~~been~~ not been revised shall also be disclosed.

* Where an entity has been covered in level I and subsequently, ~~Seizes~~ ceases to be covered and gets covered in MSME, the entity will not qualify for exemption untill the entity ceases to be covered in level I for two consecutive year. Similarily same will happen for level II → III → IV

* If an entity covered in MSME opts not to avail then it shall disclosed the AS in respect of which exemption was avoided

R - Relaxation

AS	level II	level III	level IV
1	✓	✓	✓
2	✓	✓	✓
3	X	X	X
4	✓	✓	✓
5	✓	✓	✓
7	✓	✓	✓
9	✓	✓	✓
10	✓	✓ R	✓ R
11	✓	✓ R	✓ R
12	✓	✓	✓
13	✓	✓	✓ R
14	✓	✓	X
15	✓ R	✓ R	✓ R

16	✓	✓	✓
17	✗	✗	✗
18	✓	✗	✗
19	✓ R	✓ R	✓ R
20	✗	✗	✗
21	✗	✗	✗
22	✓	✓	✓ R
23	✗	✗	✗
24	✓	✗	✗
25	✗	✗	✗
26	✓	✓	✓ R
27	✗	✗	✗
28	✓ R	✓ R	✗
29	✓ R	✓ R	✓ R

(2) Criteria for classification of Companies (under Companies (AS) Rules, 2021)

- SMC (Small & Medium Sized company)
  - AS - 3, AS - 17 Not applicable
  - Relaxation in AS - 21, 23, 27, 15, 19, 20, 28, 29, 25
- Non - SMC
  - Non - SMC shall comply with all AS ~~to~~ in full entirely.

* SMC –

(1) whose equity or debt Securities are not listed in Stock exchange (India or outside).

(2) Which is not a Bank, financial Institution or Insurance company.

(3) Turnover does not exceed ₹ 250 Cr.
Borrowing " " " ₹ 50 Cr.
holding or Subsidiary of above

* Non-SMC – who is not SMC

x —— x —— x —— x —— x