CHAPTER 1

INTRODUCTION TO ACCOUNTING STANDARDS

LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Understand the concept of Accounting Standards;
- Grasp the objectives and benefits of Accounting Standards;
- Learn the standards setting process;
- Familiarize with the status of Accounting Standards in India;
- Recognize the International Accounting Standard Authorities;
- Appreciate the emergence of International Financial Reporting Standards as global standards;
- Differentiate between convergence vs. adoption;
- Know the process of convergence of IFRS in India;
- Understand the concept of Ind AS;
- Understand the objectives and concepts of carve outs/ins.

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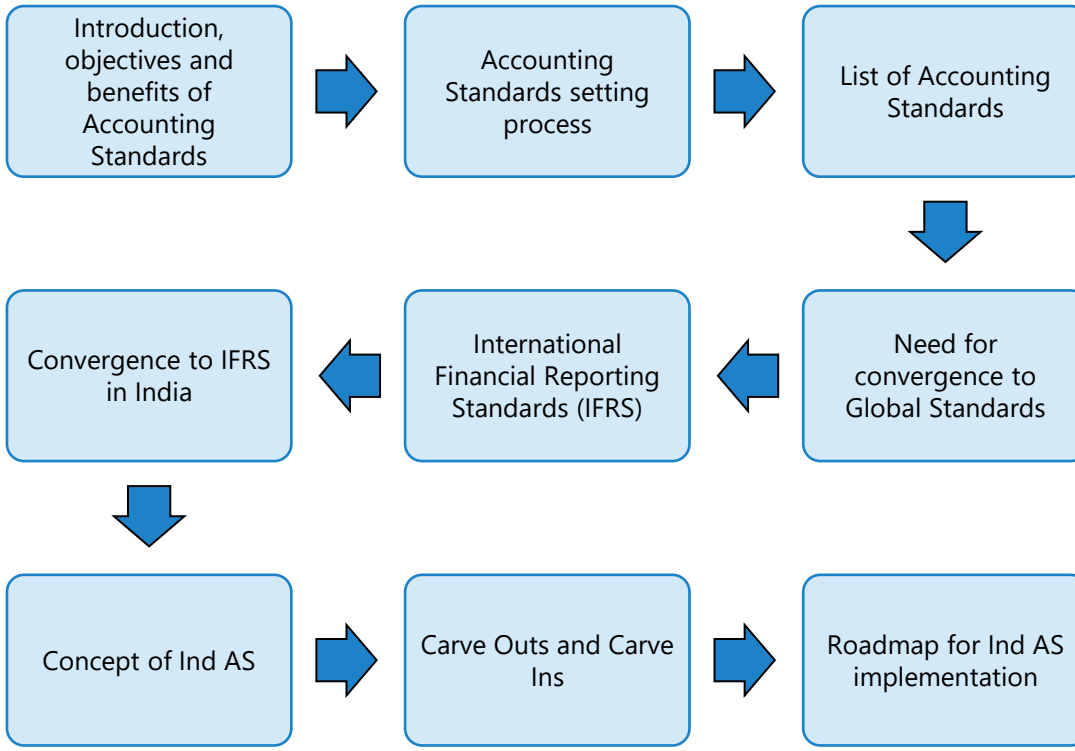
CHAPTER OVERVIEW



1. INTRODUCTION

Generally Accepted Accounting Principles

Generally accepted accounting principles (GAAP) refer to a common set of accepted accounting principles, standards, and procedures that business reporting entity must follow when it prepares and presents its financial statements.

GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. At international level, such authoritative standards are known as International Financial Reporting Standards (IFRS) at many places and in India we have authoritative standards named as Accounting Standards (ASs) and Indian Accounting Standard (Ind AS).

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Accounting Standards (ASs) are written policy documents issued by the Government with the support of other regulatory bodies e.g., Ministry of Corporate Affairs (MCA) issuing Accounting Standards for corporates in consultation with National Financial Reporting Authority (NFRA) covering the following aspects of accounting transaction or events in the financial statements:

- recognition;
- measurement;
- presentation; and
- disclosure.

The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other stakeholders, having an interest in the company's economic performance.

Accounting Standards reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby, ensuring comparability of financial statements of different enterprises.

Accounting Standards deal with the following aspects:

(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) the disclosures relating to these transactions and events 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.

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Accounting Standards deal with aspects of accounting events			
Recognition of events and transactions	Measurement of transactions and events	Presentation of transactions and events	Disclosure requirements

The following are the benefits of Accounting Standards:

(i) ***Standardisation of alternative accounting treatments:*** Accounting Standards reduce or eliminate, to a reasonable extent, any confusing variations in the accounting treatment and presentation of economic events while preparing financial statements.

The standard policies are intended to reflect a consensus on accounting policies to be used in different identified areas, e.g. inventory valuation, capitalisation of costs, depreciation and amortisation, etc.

Since it is not possible to prescribe a single set of policies for any specific accounting area that would be appropriate for all enterprises, it is not enough to comply with the standards and state that they have been followed.

In other words, one must also disclose the accounting policies used in preparation of financial statements. (Refer AS 1, Disclosure of Accounting Policies given in Accounting Pronouncements).

For example, an enterprise should disclose which of the permitted cost formula (FIFO, Weighted Average, etc.) has actually been used for ascertaining inventory costs.

(ii) ***Requirements for additional disclosures:*** There are certain areas where information is not statutorily required to be disclosed. However, accounting standards may call for appropriate disclosures of accounting policies followed and other required information in the financial statements which would be helpful for readers to understand the accounting treatment done for various items in those financial statements.

(iii) ***Comparability of financial statements:*** In addition to improving credibility of accounting data, standardisation of accounting procedures improves comparability of financial statements, both intra-enterprise and inter-

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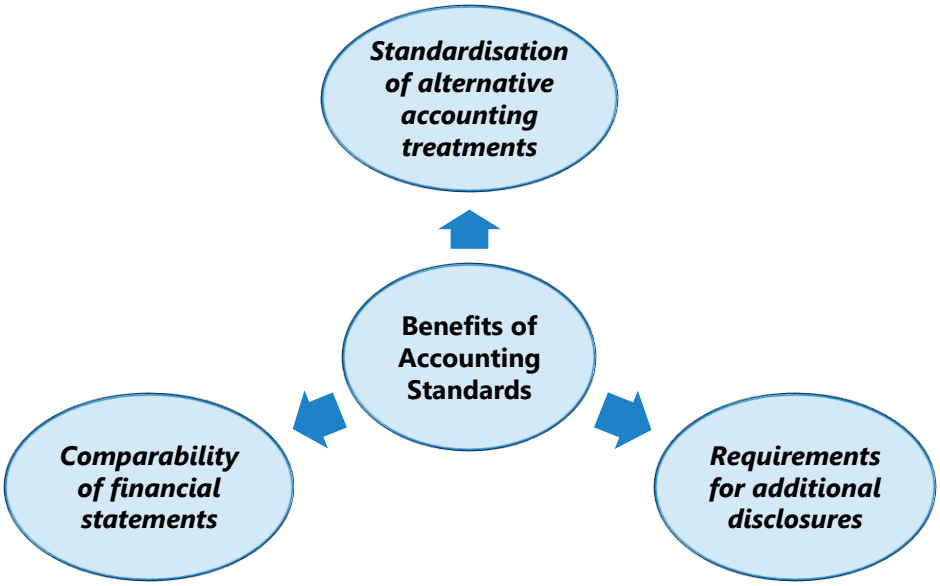
enterprise. Such comparisons are very effective and most widely used tools for assessment of enterprise's financial health and performance by users of financial statements for taking economic decisions, e.g., whether or not to invest, whether or not to lend and so on.

The intra-enterprise comparison involves comparison of financial statements of same enterprise over a number of years. The intra-enterprise comparison is possible if the enterprise uses same accounting policies every year in drawing up its financial statements.

The inter-enterprise comparison involves comparison of financial statements of different enterprises for same accounting period. This is possible only when comparable enterprises use similar accounting policies in preparation of respective financial statements (or in case the policies are slightly different, the same are disclosed in the financial statements). The disclosure of accounting policies allows a user to make appropriate adjustments while comparing the financial statements of comparable enterprises.



Since Accounting Standards are principle based, application of Accounting Standards becomes judgemental in case of complex business transactions. Accounting Standards have to be read in line with the legal requirements, i.e., in case of any conflict, Statute would prevail over Accounting Standards.

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Another advantage of standardisation is reduction of scope for *creative accounting*. The creative accounting refers to twisting of accounting policies to produce financial statements favourable to a particular interest group. For example, it is possible to overstate profits and assets by capitalising revenue expenditure or to understate them by writing off a capital expenditure against revenue of current accounting period. Such practices can be curbed only by framing policies for capitalisation, particularly for the borderline cases where it is possible to have divergent views. The accounting standards provide adequate guidance in this regard.

2. STANDARDS SETTING PROCESS

The Institute of Chartered Accountants of India (ICAI), being a premier accounting body in the country, took upon itself the leadership role by constituting the Accounting Standards Board (ASB) in 1977. The ICAI has taken significant initiatives for the issuance of Accounting Standards to ensure that the standard-setting process is fully consultative and transparent. The ASB considered the International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs) while framing Accounting Standards (ASs) in India and tried to integrate them, in the light of the applicable laws, customs, usages and business environment in the country. The composition of ASB includes representatives of industries, associations of industries (namely, ASSOCHAM, CII, FICCI), regulators, academicians, government departments, etc. Although ASB is a body constituted by the Council of the ICAI, it (ASB) is independent in the formulation of accounting standards. NFRA recommend these standards to the MCA. MCA has to spell out the accounting standards applicable for companies in India.

The standard-setting procedure of ASB can be briefly outlined as follows:

- **Step I – Identification of area:**

  Identification of broad areas by ASB for formulation of AS.

- **Step II – Constitution of study groups:**

  Constitution of study groups by ASB to consider specific projects and to prepare preliminary drafts of the proposed accounting standards. The draft normally includes objective and scope of the standard, definitions of the terms used in the

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standard, recognition and measurement principles wherever applicable and presentation and disclosure requirements.

Consideration of the preliminary draft prepared by the study group of ASB and revision, if any, of the draft on the basis of deliberations.

- **Step III - Preparation of draft and its circulation:**

  Circulation of draft of accounting standard (after revision by ASB) to the Council members of the ICAI and specified outside bodies such as MCA, Securities and Exchange Board of India (SEBI), Comptroller and Auditor General of India (C&AG), Central Board of Direct Taxes (CBDT), Standing Conference of Public Enterprises (SCOPE), etc. for comments.

- **Step IV - Ascertainment of views of different bodies on draft:**

  Meeting with the representatives of the specified outside bodies to ascertain their views on the draft of the proposed accounting standard.

- **Step V - Finalisation of exposure draft (E.D.):**

  Finalisation of the exposure draft of the proposed accounting standard and its issuance inviting public comments.

- **Step VI – Comments received on exposure draft (E.D.):**

  Consideration of comments received on the exposure draft and finalisation of the draft accounting standard by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance.

- **Step VII – Modification of the draft:**

  Consideration of the final draft of the proposed standard by the Council of the ICAI and if found necessary, modification of the draft in consultation with the ASB is done.

- **Step VIII – Issue of AS:**

  The accounting standard on the relevant subject (for non-corporate entities) is then issued by the ICAI. For corporate entities the accounting standards are issued by the Ministry of Corporate Affairs in consultation with the NFRA.

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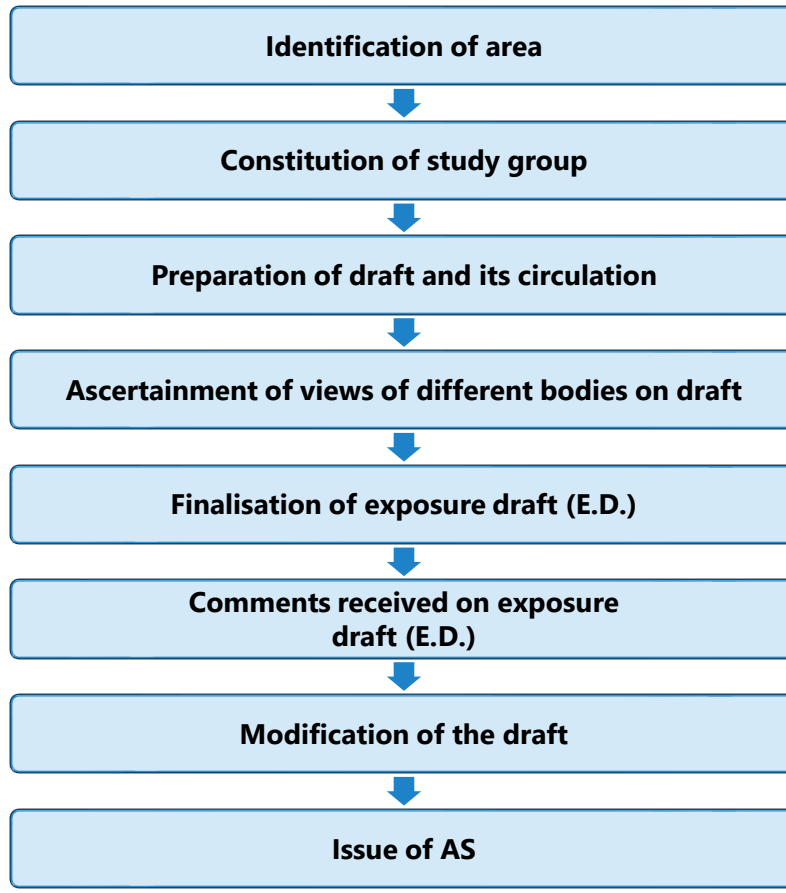
Standard – Setting Process



Earlier, ASB used to issue Accounting Standard Interpretations (ASIs) which address questions that arise in course of application of standard. These were, therefore, issued after issuance of the relevant standard. Authority of the ASIs was same as that of the AS to which it relates.

However, after notification of Accounting Standards by the Central Government for the companies, where the consensus portion of ASI was merged as 'Explanation' to the relevant paragraph of the Accounting Standard, the Council of ICAI also decided to merge the consensus portion of ASI as 'Explanation' to the relevant paragraph of the AS issued by them. This initiative was taken by the Council of the ICAI to harmonise both the set of standards, i.e., ASs issued by the ICAI for non-corporates and ASs notified by the MCA for corporates.

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It may be noted that 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, constituted under section 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by NFRA.

3. HOW MANY ACCOUNTING STANDARDS?

The Institute of Chartered Accountants of India has, so far, issued 29 Accounting Standards. However, AS 6 on 'Depreciation Accounting' has been withdrawn on revision of AS 10 'Property, Plant and Equipment*' and AS 8 on 'Accounting for Research and Development' has been withdrawn consequent to the issuance of AS 26 on 'Intangible Assets'.

Thus effectively, there are 27 Accounting Standards at present. The 'Accounting Standards' issued by the Accounting Standards Board establish standards which have to be complied by the business entities so that the financial statements are prepared in accordance with GAAP.

In recent times there are various improvements/developments in the global accounting standards which have taken place. In India, Ind AS have become mandatory for certain class of companies as per the MCA roadmap. AS being the guidelines to prepare financial statements, have to keep pace with these changes in global accounting scenarios. Number of fundamental changes have been made in these AS so as to be globally aligned as far as possible.

MCA vide notification date 30th March 2016 announced Companies (Accounting Standards) Amendment Rules, 2016. These rules were superseded by the Companies (Accounting Standards) Rules, 2021 which were notified by the MCA on 23rd June, 2021. Various ASs i.e. AS 2, AS 4, AS 10, AS 13, AS 14, AS 21, AS 29 have been revised to make them in line with corresponding Ind AS to the extent possible.

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* *Earlier AS 10 was on 'Accounting for Fixed Assets'.*

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The following is the list of Accounting Standards with their respective date of applicability:

AS No.	AS Title	Date of applicability
1	Disclosure of Accounting Policies	01/04/1993
2	Valuation of Inventories (Revised)	01/04/1999
3	Cash Flow Statement	01/04/2001
4	Contingencies and Events Occurring after the Balance Sheet Date (Revised)	01/04/1998
5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	01/04/1996
7	Construction Contracts	01/04/2002
9	Revenue Recognition	01/04/1993
10	Property, Plant and Equipment (Revised)	01/04/2016
11	The Effects of Changes in Foreign Exchange Rates (Revised)	01/04/2004
12	Accounting for Government Grants	01/04/1994
13	Accounting for Investments (Revised)	01/04/1995
14	Accounting for Amalgamations (Revised)	01/04/1995
15	Employee Benefits	01/04/2006
16	Borrowing Costs	01/04/2000
17	Segment Reporting	01/04/2001
18	Related Party Disclosures	01/04/2001
19	Leases	01/04/2001
20	Earnings Per Share	01/04/2001
21	Consolidated Financial Statements (Revised)	01/04/2001
22	Accounting for Taxes on Income	01/04/2006

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23	Accounting for Investments in Associates in Consolidated Financial Statements	01/04/2002
24	Discontinuing Operations	01/04/2004
25	Interim Financial Reporting	01/04/2002
26	Intangible Assets	01/04/2003
27	Financial Reporting of Interests in Joint Ventures	01/04/2002
28	Impairment of Assets	01/04/2008
29	Provisions, Contingent Liabilities and Contingent Assets (Revised)	01/04/2004

NOTE:

In the study material, Accounting Standards have not been discussed sequentially; instead the related Accounting Standards have been grouped and discussed in the ensuing chapters for ease of understanding. For example, the 'Presentation and Disclosure based Accounting Standards like AS 1, AS 3, AS 17, AS 18, AS 20, AS 24 and AS 25 have been grouped in one chapter. The chapter-wise grouping of Accounting Standards, has been discussed in the Study Material, as follows:

Chapter 4: Presentation & Disclosures based Accounting Standards		
AS 1	:	Disclosure of Accounting Policies
AS 3	:	Cash Flow Statements
AS 17	:	Segment Reporting
AS 18	:	Related Party Disclosures
AS 20	:	Earnings Per Share
AS 24	:	Discontinuing Operations
AS 25	:	Interim Financial Reporting
Chapter 5: Assets based Accounting Standards		
AS 2	:	Valuation of Inventories
AS 10	:	Property, Plant and Equipment
AS 13	:	Accounting for Investments

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AS	16	:	Borrowing Costs
AS	19	:	Leases
AS	26	:	Intangible Assets
AS	28	:	Impairment of Assets
Chapter 6: Liabilities based Accounting Standards			
AS	15	:	Employee Benefits
AS	29	:	Provisions, Contingent Liabilities and Contingent Assets
Chapter 7: Accounting Standards based on items impacting Financial Statements			
AS	4	:	Contingencies and Events Occurring After the Balance Sheet Date
AS	5	:	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS	11	:	The Effects of Changes in Foreign Exchange Rates
AS	22	:	Accounting for Taxes on Income
Chapter 8: Revenue based Accounting Standards			
AS	7	:	Construction Contracts
AS	9	:	Revenue Recognition
Chapter 9: Other Accounting Standards			
AS	12	:	Accounting for Government Grants
AS	14	:	Accounting for Amalgamations (excluding inter- company holdings)
Chapter 10: Accounting Standards for Consolidated Financial Statements			
AS	21	:	Consolidated Financial Statements of single subsidiaries (excluding problems involving acquisition of Interest in Subsidiary at Different Dates, Cross holding, Disposal of a Subsidiary and Foreign Subsidiaries).
AS	23	:	Accounting for Investment in Associates in Consolidated Financial Statements
AS	27	:	Financial Reporting of Interests in Joint Ventures

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4. STATUS OF ACCOUNTING STANDARDS

It has already been mentioned that the ASs are developed by the ASB of the ICAI. The Institute not being a legislative body can enforce compliance with its standards only by its members. Also, the standards cannot override laws and local regulations. The ASs are nevertheless made mandatory from the dates specified in respective standards and are generally applicable to all enterprises, subject to certain exceptions. The implication of mandatory status of an AS depends on whether the statute governing the enterprise concerned requires compliance with the ASs. The Companies Act had earlier notified 28 ASs and mandated the corporate entities to comply with the provisions stated therein. However, in 2016 the MCA withdrew AS 6. Hence there are now only 27 notified ASs as per the Companies (Accounting Standards) Rules, 2021[1].

5. NEED FOR CONVERGENCE TOWARDS GLOBAL STANDARDS

The last decade has witnessed a sea change in the global economic scenario. The emergence of trans-national corporations in search of money, not only for fuelling growth, but to sustain on-going activities has necessitated raising of capital from all parts of the world, cutting across frontiers.

Few key aspects which required the need for convergence are as under:

1. Raising funds from international markets:

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. Therefore, translation

[1] *Companies (Accounting Standards) Rules, 2021, has replaced Companies (Accounting Standards) Rules, 2006, (as amended from time to time) notified by the Central Government and Accounting Standards issued by the ICAI. The Companies (Accounting Standards) Rules, 2021 will apply to accounting periods beginning on or after April 1, 2021.*

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and reinstatements are of utmost importance in a world that is rapidly globalising in all ways. Further, the ASs and principles need to be robust so that the larger society develops degree of confidence in the financial statements, which are put forward by organisations.

2. Comparability of Financial Statements:

International analysts and investors would like to compare financial statements based on similar ASs, and this has led to the growing need for an internationally accepted set of ASs for cross-border filings. The harmonization of financial reporting around the world will help to raise confidence of investors, generally, in the information they are using to make their decisions and assess their risks.

3. Uniformity, Comparability Transparency etc.:

A strong need was felt by legislation to bring about uniformity, rationalisation, comparability, transparency and adaptability in financial statements. Having a multiplicity of types of ASs around the world is against the public interest. If accounting for the same events and information produces different reported numbers, depending on the system of standards that are being used, then it is self-evident that accounting will be increasingly discredited in the eyes of those using the numbers. It creates confusion, encourages error and may facilitate fraud. The cure for these ills is to have a single set of global standards, of the highest quality, set in the interest of public. Global Standards facilitate cross border flow of money, global listing in different stock markets and comparability of financial statements.

4. Global Investment:

The convergence of financial reporting and ASs 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 like reinstatement of financial statements. It has the potential to create a new standard of accountability and greater transparency provides value to all market participants including regulators. It reduces operational challenges for accounting firms and focuses their values and expertise around an increasingly unified set of standards. It creates an unprecedented opportunity for standard setters and other stakeholders to improve

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the reporting model. For the companies with joint listings in both domestic and foreign country, the convergence is very much significant.

6. INTERNATIONAL ACCOUNTING STANDARD BOARD (IASB)

With a view of achieving the objective of setting global standards, the London based group namely the International Accounting Standards Committee (IASC), responsible for developing International Accounting Standards (IAS), was established in June, 1973. It is presently known as International Accounting Standards Board (IASB), The IASC comprises the professional accountancy bodies of over 75 countries (including the ICAI). Primarily, the IASC was established, in the public interest, to formulate and publish, IASs to be followed in the preparation and presentation of financial statements. IASs were issued to promote acceptance and observance of IASs worldwide. The members of IASC undertook a responsibility to support the standards developed by IASC and to propagate those standards in their respective countries.

Between 1973 and 2001, the IASC released IASs. Between 1997 and 1999, the IASC restructured their organisation, which resulted in formation of IASB. These changes came into effect on 1st April, 2001. Subsequently, IASB issued statements about current and future standards. IASB publishes its Standards in a series of pronouncements called International Financial Reporting Standards (IFRS). However, IASB has not rejected the standards issued by the IASC. Those pronouncements continue to be designated as "International Accounting Standards" (IAS).

The standards issued by IASC till 31.03.2001 are known as IASs and the standards issued by IASB since 01.04.2001 are known as IFRSs.

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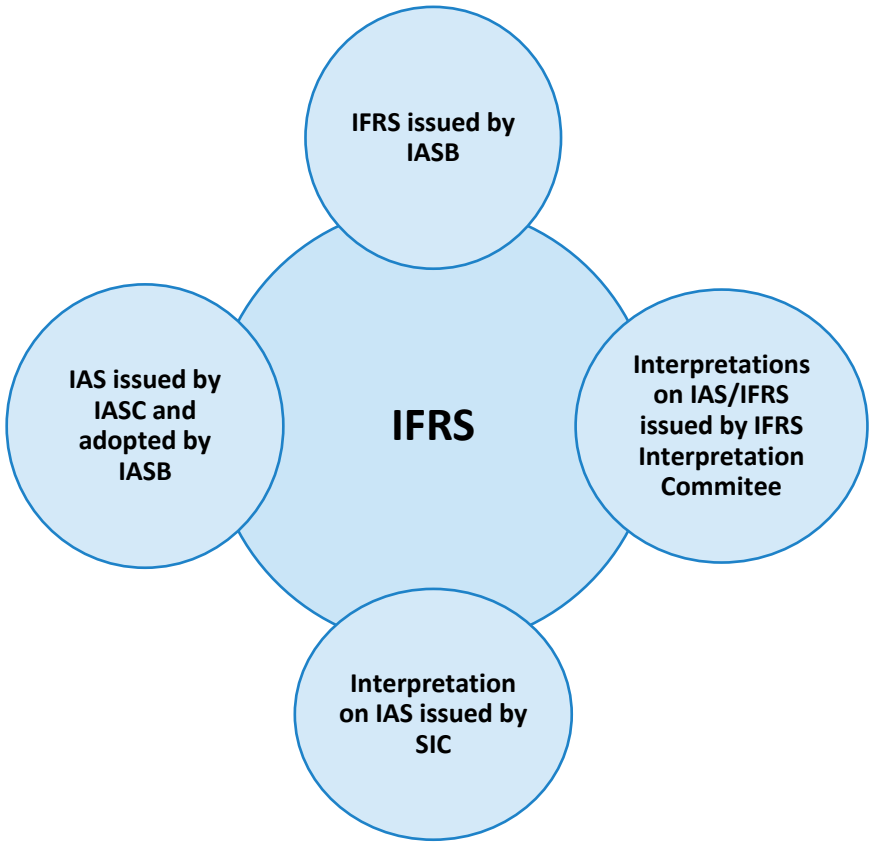
7. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AS GLOBAL STANDARDS

The term International Financial Reporting Standards (IFRS) comprises:



1. IFRS issued by IASB;
2. IAS issued by IASC;
3. Interpretations issued by the Standard Interpretations Committee (SIC); and
4. Interpretations issued by the IFRS Interpretations Committee of the IASB (called IFRIC – International Financial Reporting Standards Interpretation Committee).

IFRSs are considered as a "principles-based" set of standards. In fact, they establish broad rules rather than dictating specific treatments. Every major nation is moving toward adopting them to some extent. Large number of authorities permits public

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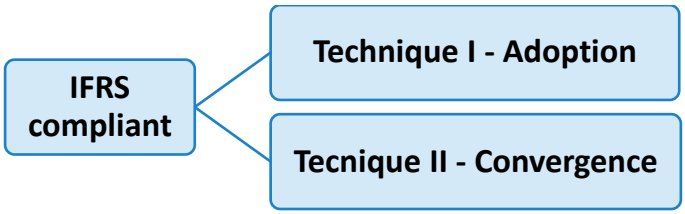
companies to use IFRS for stock-exchange listing purposes, and in addition, banks, insurance companies and stock exchanges may use them for their statutorily required reports. So, over the next few years, number of companies will adopt the international standards. This requirement will affect thousands of enterprises, including their subsidiaries, equity investors and joint venture partners. The increased use of IFRS is not limited to public-companies listing requirements or statutory reporting. Many lenders and regulatory and government bodies are looking to IFRS to fulfil local financial reporting obligations related to financing or licensing.

8. BECOMING IFRS COMPLIANT

Any country can become IFRS compliant either by adoption process or by convergence process.



Technique I – Adoption 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.

Technique II – Convergence Process:

Convergence means that the country will develop high quality, compatible accounting standards and there would be 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.

Ind AS are almost similar to IFRS but with few carve outs so as to make them suitable for Indian Environment.

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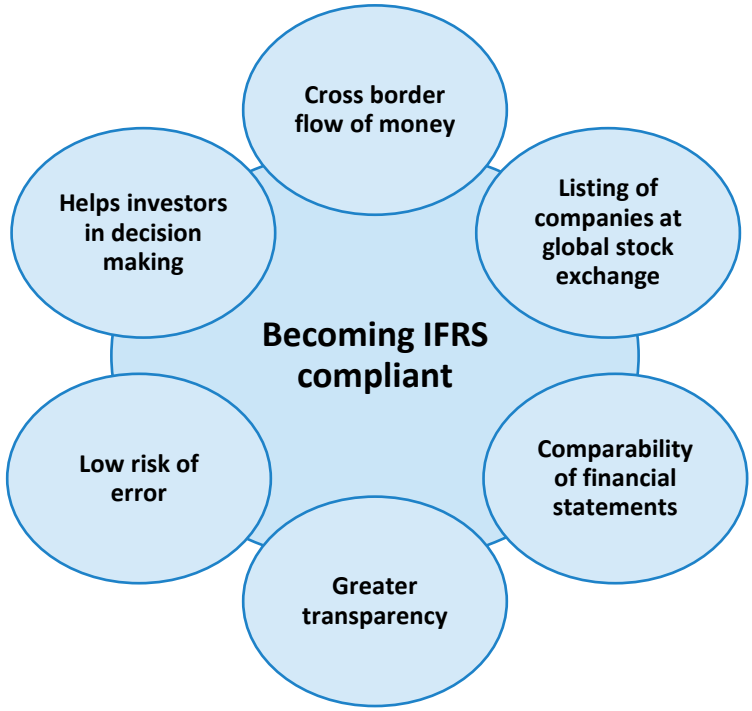
Convergence with IFRS will result in following benefits:

- 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 by stock exchanges across the globe, which will facilitate listing of Indian companies to international stock exchanges.



9. WHAT ARE CARVE OUTS/INS IN 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.

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Accordingly, while formulating 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. These changes have been made considering various factors, such as:

- **Terminology differences:**

  Various terminology related changes have been made to make it consistent with the terminology used in law, e.g., 'statement of profit and loss' in place of 'statement of comprehensive income' (SOCI) and 'balance sheet' in place of 'statement of financial position'(SOFP).

- **Removal of options in accounting principles and practices:**

  Removal of options in accounting principles and practices in Ind AS vis-a-vis IFRS, have been made to maintain consistency and comparability of the financial statements to be prepared by following Ind AS. However, these changes will not result into carve outs.

- **Difference in economic environment:**

  Certain changes have been made 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-outs'.**

Additional guidance given in Ind AS over and above what is given in IFRS, is termed as **'Carve in'.**

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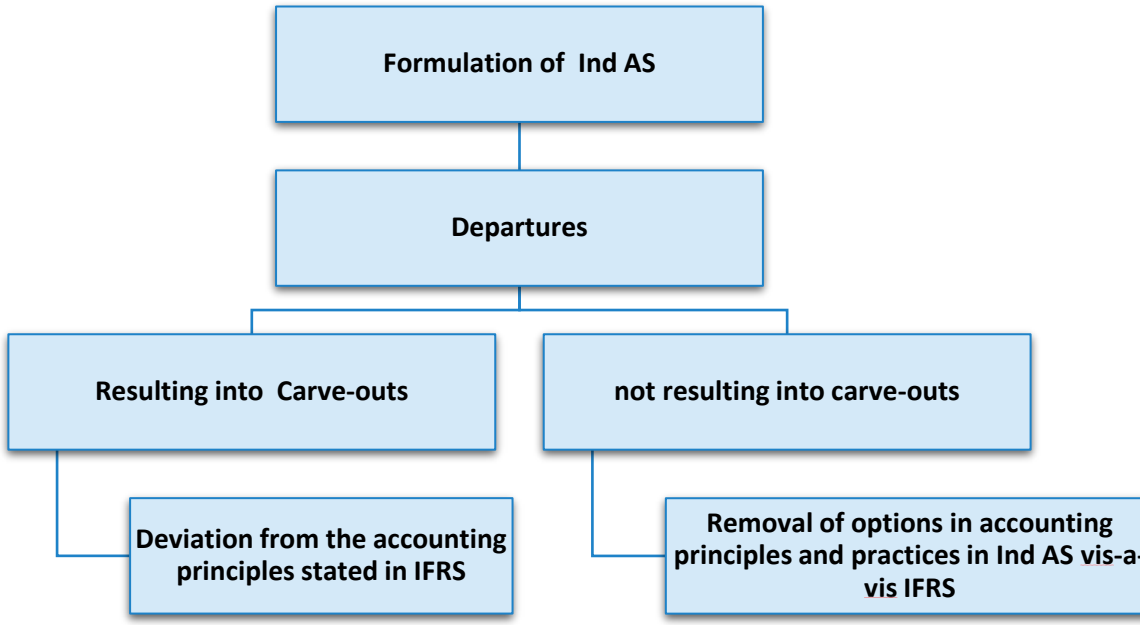

10. CONVERGENCE TO IFRS IN INDIA

In the scenario of globalisation, India cannot isolate itself from the accounting developments taking place worldwide. In India, so far as the ICAI, NFRA and various regulators such as SEBI and Reserve Bank of India (RBI) are concerned, the aim is to comply with the IFRS to the extent possible with the objective to formulate sound financial reporting standards for the purpose of preparing globally accepted financial statements. The ICAI, being a member of the International Federation of Accountants (IFAC), considered the IFRS and tried to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India.

Due to the recent stream of overseas acquisitions by Indian companies, there is need for adoption of high-quality standards to convince foreign enterprises about the financial standing as also the disclosure and governance standards of Indian acquirers.

In India, the ICAI has worked towards convergence of global accounting standards by considering the application of IFRS in Indian corporate environment.

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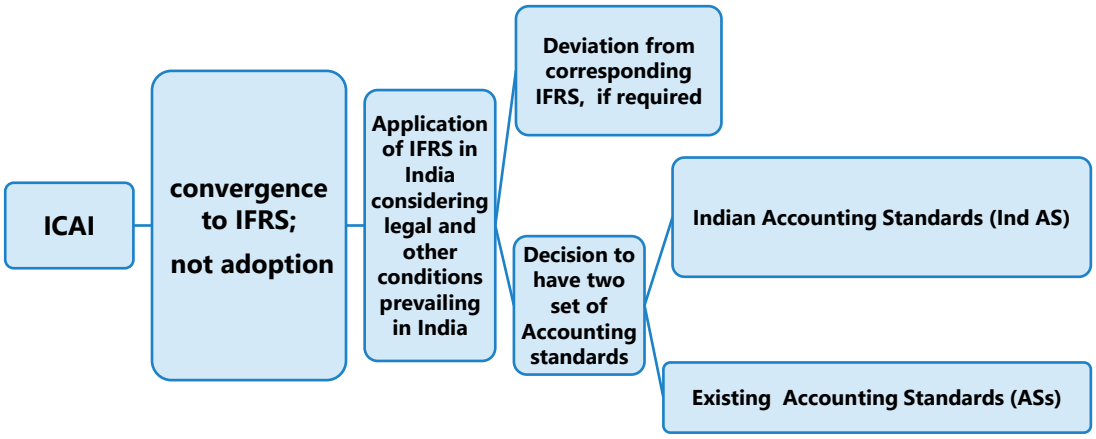
Recognising the growing need of full convergence of Ind AS with IFRS, ICAI constituted a Task Force to examine various issues involved.

Full convergence involves adoption of IFRS in the same form as that issued by the IASB.

For convergence of Ind AS with IFRS, the ASB in consultation with the MCA, decided that there will be two separate sets of accounting standards viz. (i) Ind AS converged with the IFRS – standards which are being converged by eliminating the differences of the Ind AS vis-à-vis IFRS and (ii) Existing notified AS.



11. WHAT ARE INDIAN ACCOUNTING STANDARDS (IND AS)?

Ind AS are IFRS converged standards issued by the Central Government of India under the supervision and control of ASB of ICAI and in consultation with NFRA.

NFRA recommends these standards to the MCA. MCA has to spell out the accounting standards applicable for companies in India.

Ind AS are named and numbered in the same way as the corresponding IAS. However, for Ind AS corresponding to IFRS, one need to add 100 to the IFRS number e g. for IFRS 1 corresponding Ind AS number is 101.

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Indian Accounting Standards			
Globalization and Liberalization	Transparency of financial statements	Comparability of financial statements	Enhanced Disclosure requirements

12. HISTORY OF IFRS-CONVERGED INDIAN ACCOUNTING STANDARDS (IND AS)

First Step towards IFRS

The ICAI being the accounting standards-setting body in India, way back in 2006, initiated the process of moving towards the IFRS issued by the IASB with a view to enhance acceptability and transparency of the financial information communicated by the Indian corporates through their financial statements. This move towards IFRS was subsequently accepted by the Government of India.

Government of India - Commitment to IFRS Converged Ind AS

As per the original roadmap for implementation of IFRS-converged Ind AS issued by the Government of India, initially Ind AS were expected to be implemented from the year 2011. However, keeping in view the fact that certain issues including tax issues were still to be addressed, the Ministry of Corporate Affairs decided to postpone the date of implementation of Ind AS.

In July 2014, the Finance Minister of India at that time, Late Shri Arun Jaitley Ji, in his Budget Speech, announced an urgency to converge the existing accounting standards with the IFRS through adoption of the Ind AS by the Indian companies.

Pursuant to the above announcement, various steps have been taken to facilitate the implementation of IFRS-converged Ind AS. Moving in this direction, the MCA 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 Ind AS.

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As per the Notification, Ind AS converged with IFRS were required to be implemented on voluntary basis from 1st April, 2015 and mandatorily from 1st April, 2016.

Separate roadmaps were prescribed for implementation of Ind AS to Banking, Insurance companies and NBFCs.

13. LIST OF IND AS

The following is the list of notified Ind AS *vis-a-vis* IFRS and AS:

Ind AS	IAS/ IFRS	Title of Ind AS/IFRS	AS/GN	AS/GN Title
101	IFRS 1	First Time Adoption of Indian Accounting Standards	-	-
102	IFRS 2	Share Based Payment	GN	Guidance Note on Accounting for Share-based Payments
103	IFRS 3	Business Combinations	AS 14	Accounting for Amalgamations
104	IFRS 4	Insurance Contracts	-	-
105	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	AS 24	Discontinuing Operations
106	IFRS 6	Exploration for and Evaluation of Mineral Resources	GN 15	Guidance Note on Accounting for Oil and Gas Producing Activities
107	IFRS 7	Financial Instruments: Disclosures	-	-
108	IFRS 8	Operating Segments	AS 17	Segment Reporting
109	IFRS 9	Financial Instruments	-	-
110	IFRS 10	Consolidated Financial Statements	AS 21	Consolidated Financial Statements

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Ind AS	IAS/ IFRS	Title of Ind AS/IFRS	AS/GN	AS/GN Title
111	IFRS 11	Joint Arrangements	AS 27	Financial Reporting of Interests in Joint Ventures
112	IFRS 12	Disclosure of Interests in Other Entities	-	-
113	IFRS 13	Fair Value Measurement	-	-
114	IFRS 14	Regulatory Deferral Accounts	GN	Accounting for Rate Regulated Activities
115	IFRS 15	Revenue from contracts with customers	AS 7 AS 9	Construction Contract Revenue Recognition
116	IFRS 16	Leases	AS 19	Leases
	IFRS 17	Insurance Contracts		
1	IAS 1	Presentation of Financial Statements	AS 1	Disclosure of Accounting Policies
2	IAS 2	Inventories	AS 2	Valuation of Inventories
7	IAS 7	Statement of Cash Flows	AS 3	Cash Flow Statements
8	IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	AS 5	Net Profit or Loss for the Period, Prior period Items and Changes in Accounting Policies
10	IAS 10	Events after the Reporting Period	AS 4	Contingencies and Events Occurring After the Balance Sheet date
12	IAS 12	Income Taxes	AS 22	Accounting for Taxes on Income
16	IAS 16	Property, Plant and Equipment	AS 10	Property, Plant and Equipment
19	IAS 19	Employee Benefits	AS 15	Employee Benefits

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Ind AS	IAS/ IFRS	Title of Ind AS/IFRS	AS/GN	AS/GN Title
20	IAS 20	Accounting for Government Grants and Disclosure of Government Assistance	AS 12	Accounting for Government Grants
21	IAS 21	The Effects of Changes in Foreign Exchange Rates	AS 11	The Effects of Changes in Foreign Exchange Rates
23	IAS 23	Borrowing Costs	AS 16	Borrowing Costs
24	IAS 24	Related Party Disclosures	AS 18	Related Party Disclosures
27	IAS 27	Separate Financial Statements	-	-
28	IAS 28	Investment in Associates and Joint Ventures	AS 23	Accounting for Investment in Associates in Consolidated Financial Statements
29	IAS 29	Financial Reporting in Hyperinflationary Economies	-	-
32	IAS 32	Financial Instruments: Presentation	-	-
33	IAS 33	Earnings per Share	AS 20	Earnings per Share
34	IAS 34	Interim Financial Reporting	AS 25	Interim Financial Reporting
36	IAS 36	Impairment of Assets	AS 28	Impairment of Assets
37	IAS 37	Provisions, Contingent Liabilities and Contingent Assets	AS 29	Provisions, Contingent Liabilities and Contingent Assets

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Ind AS	IAS/ IFRS	Title of Ind AS/IFRS	AS/GN	AS/GN Title
38	IAS 38	Intangible Assets	AS 26	Intangible Assets
40	IAS 40	Investment Property	AS 13	Accounting for Investments
41	IAS 41	Agriculture	-	-

14. ROADMAP FOR IMPLEMENTATION OF INDIAN ACCOUNTING STANDARDS (IND AS): A SNAPSHOT

For Companies other than Banks, NBFCs and Insurance Companies

Phase I: 1st April 2015 or thereafter (with Comparatives): Voluntary Basis for any company (other than Banks, NBFCs and Insurance companies) and its holding, subsidiary, Joint venture (JV) or Associate Company.

1st April 2016: Mandatory Basis

(a) Companies listed/in process of listing on Stock Exchanges in India or Outside India having net worth of INR 500 crore or more;

(b) Unlisted Companies having net worth of INR 500 crore or more;

(c) Parent, Subsidiary, Associate and JV of above.

Phase II: 1st April 2017: Mandatory Basis

(a) All companies which are listed/or in process of listing on Stock Exchanges in India or outside India not covered in Phase I (other than companies listed on SME Exchanges);

(b) Unlisted companies having net worth of INR 250 crore or more but less than INR 500 crore;

(c) Parent, Subsidiary, Associate and JV of above.

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Special Points to Consider:-

- Companies listed on SME exchange are not required to apply Ind AS. Such companies shall continue to apply existing ASs unless they choose otherwise.
- Once Ind AS are applicable, an entity shall be required to follow the Ind AS for all the subsequent financial statements i.e. there is no looking back once the Ind AS are adopted by companies.
- Companies not covered by the above roadmap shall continue to apply Accounting Standards notified in Companies (Accounting Standards) Rules, 2006.

For Non-Banking Financial Companies (NBFCs), Scheduled Commercial Banks (Excluding RRBs) and Insurers/Insurance Companies and

Non-Banking Financial Companies (NBFCs)	
Phase I:	From 1st April, 2018 (with comparatives)
	• NBFCs (whether listed or unlisted) having net worth INR 500 crores or more
	• Holding, Subsidiary, JV and Associate companies of above NBFC other than those already covered under corporate roadmap shall also apply from said date.
Phase II:	From 1st April, 2019 (with comparatives)
	• NBFCs whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth less than INR 500 crores
	• NBFCs that are unlisted having net worth INR 250 crores or more but less than INR 500 crores
	• Holding, Subsidiary, JV and Associate companies of above companies other than those already covered under corporate roadmap shall also apply Ind AS from the said date.
➢ Applicable to both Consolidated and Individual Financial Statements	
➢ NBFC having net worth below INR 250 crores and not covered under the above provisions shall continue to apply ASs specified in Annexure to Companies (Accounting Standards) Rules, 2006.	
➢ Adoption of Ind AS is allowed only when required as per the roadmap.	
➢ Voluntary adoption of Ind AS is not allowed.	

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Scheduled Commercial banks (excluding RRBs)
➢ Scheduled Commercial Banks (SCBs) excluding Regional Rural Banks (RRBs) were initially required to implement Ind AS from 1 April 2018. However, RBI (Reserve Bank of India) vide a press release dated 5 April 2018, deferred the implementation of Ind AS by one year i.e. to be effective from 1 April 2019 instead of 1 April 2018. ➢ Further, the RBI through a notification dated 22 March 2019, deferred the Ind AS implementation till further notice. Urban Cooperative banks (UCBs) and Regional Rural banks (RRBs) are not required to apply Ind AS.
Insurers/Insurance companies
➢ MCA had outlined the road map for implementation of Ind AS by insurers/insurance companies from 1 April 2018. ➢ IRDAI (Insurance Regulatory and Development Authority of India) deferred the implementation of Ind AS in the insurance sector in India for a period of two years whereby the effective date was deferred to 1st April 2020. IRDAI, vide circular dated 21 January 2020, has deferred implementation of Ind AS in the insurance sector till further notice.

SUMMARY

The accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements. The ICAI has, so far, issued 29 ASs. However, AS 6 on 'Depreciation Accounting' was withdrawn on revision of AS 10 'Property, Plant and Equipment and AS 8 on 'Accounting for Research and Development' has been withdrawn consequent to the issuance of AS 26 on 'Intangible Assets'. Thus, there are 27 ASs at present.

In the scenario of globalisation, India cannot isolate itself from the developments taking place worldwide. In India, so far as the ICAI and the Government authorities and various regulators such as SEBI and RBI are concerned, the aim has always been to comply with the IFRS to the extent possible with the objective of formulating sound financial reporting standards.

Ind AS are IFRS converged standards issued by the Central Government of India under the supervision and control of ASB of ICAI and in consultation with NFRA.

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As per the MCA Notification dated 16th February 2015, Ind AS converged with IFRS shall be implemented on voluntary basis from 1st April, 2015 and mandatorily from 1st April, 2016.

Separate roadmaps have been prescribed for implementation of Ind AS in Banking companies, Insurance companies and NBFCs.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *Accounting Standards for non-corporate entities in India are issued by*
   - *(a) Central Govt.*
   - *(b) State Govt.*
   - *(c) Institute of Chartered Accountants of India.*
   - *(d) MCA*
2. *Accounting Standards*
   - *(a) Harmonise accounting policies and eliminate the non-comparability of financial statements.*
   - *(b) Improve the reliability of financial statements.*
   - *(c) Both (a) and (b).*
   - *(d) manipulate the data for the management.*
3. *It is essential to standardize the accounting principles and policies in order to ensure*
   - *(a) Transparency.*
   - *(b) Consistency.*
   - *(c) Comparability .*
   - *(d) All the above.*

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4. Which committee is responsible for approval of accounting standards and their modification for the purpose of applicability to companies?

(a) NFRA.

(b) MCA.

(c) Central Government Advisory Committee.

(d) IASB

5. Global Standards facilitate

(a) Cross border flow of money.

(b) Comparability of financial statements.

(c) Uniformity and Transparency of financial statements.

(d) All the three..

Theoretical Questions

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

7. Briefly explain the process of issuance of Indian Accounting Standards.

8. Explain the significance of emergence of IFRS as Global Standards.

9. What do you mean by Carve outs/ins in Ind AS? Explain.

ANSWERS/HINTS

Answers to the Multiple Choice Questions

1	(c)	**2**	(c)	**3**	(d)	**4**	(b)	**5**	(d)		

Answers to the Theoretical Questions

6 Accounting Standards are the written policy documents issued by Government relating to various aspects of measurement, treatment, presentation and disclosure of accounting transactions and events.

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Following are the objectives of Accounting Standards:

a. Accounting Standards harmonize the diverse accounting policies and practices followed by different companies in India.

b. Accounting Standards facilitates the preparation of financial statements and make them comparable.

c. Accounting Standards give a sense of faith and reliability to the users.

The main advantage of setting accounting standards are as follows:

a. Accounting Standards makes the financial statements of different companies comparable which helps investors in decision making.

b. Accounting Standards prevent any misleading accounting treatment.

c. Accounting Standards prevent manipulation of data by the management.

7. Due to the recent stream of overseas acquisitions by Indian companies, there is need for adoption of high-quality standards to convince foreign enterprises about the financial standing as also the disclosure and governance standards of Indian acquirers.

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.

The ICAI has worked towards convergence of global accounting standards by considering the application of IFRS in Indian corporate environment. Recognising the growing need of full convergence of Ind AS with IFRS, ICAI constituted a Task Force to examine various issues involved.

Ind AS are issued by the Central Government of India under the supervision and control of ASB of ICAI and in consultation with NFRA. NFRA recommends these standards to the MCA and MCA has to spell out the accounting standards applicable for companies in India.

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8. 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.

9. 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-outs'. Additional guidance given in Ind AS over and *above what is given in IFRS, is termed as 'Carve in'*.

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