INTRODUCTION TO ACCOUNTING STANDARD & IND AS

BY ASHUTOSH KUMAR

LEARNING OUTCOMES

After studying this chapter, you will be able to:

1. Understand the concept of Accounting Standards;
2. Grasp the objectives and benefits of Accounting Standards;
3. Problems Facing by INDIAN COMPANIES for Expansion of Business
4. Benefits of Convergence
5. Need of Convergence / Process
6. Differentiate between convergence vs. adoption;
7. Understand the objectives and concepts of carve outs/ins.

Accounting Standards

INTRODUCTION

- Accounting Standards are the written policy documents issued by expert accounting body of each country
- Accounting Standards are Specific accounting principles and methods of applying those principles.
- Accounting Standards are written policy documents issued by Government with support of MCA (Ministry of Corporate Affairs).
- Issuing Accounting standards with consultation of NFRA (National Financial Reporting Authority).
- It covers mainly :

(a) Recognition (Record kare ya Na Kare?)
(b) Measurement (Money value kya hogi?)
(c) Presentation (Present kaise kare?)
(d) Disclosure (Communicate to Stakeholders)

Benefits of Accounting Standards

- Standardisation (Uniformity) of Alternative accounting treatment.
- Requirements for Additional Disclosure.
- Comparability of financial Statements :

  (a) INTRA - Enterprise

  (b) INTER - Enterprise
- Reduction of scope of 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(Like WINDOW DRESSING).

Problems Facing by Indian companies for expansion of business

- Getting Problems in Transaction due to their own rules of accounting.
- Due to this IND AS (Indian Accounting Standards) were Born.
- With a view of Achieving the objective of setting Global Standards i.e., IFRS(INTERNATIONAL FINANCIAL REPORTING STANDARDS),
  the london based group namely IASC(INTERNATIONAL ACCOUNTING STANDARDS COMMITTEE) , responsible for developing international accounting standards (JUNE 1973).
- IASC is Presently Known as IASB(INTERNATIONAL ACCOUNTING STANDARDS BOARD).
- IASC released IAS's Between (1973 to 2001).
- IASB released IFRS (Since 2001).
- After Getting Globally problems in other companies standards and policies , ICAI were asked to many persons like Government, Students , ICAI members & other professional bodies and they will Decided to CONVERGED AS with IFRS , not ADOPT IT.

Example:

Global Standards (IFRS) vs Accounting Standards:

Global standards (IFRS) 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 IFRS. IFRS issued by IASB, 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.

BENEFITS OF CONVERGENCE

- Improves Investor confidence across the world with Transparency + Comparability .
- Improves Inter unit / Inter firm / Inter Industry Comparison.
- Group Consolidation will be EASY.
- Acceptability of financial statements by stock exchanges across the globe.

Example:

NASDAQ, DOW JONES etc. With Indian NSE or BSE Exchanges.

NEED OF CONVERGENCE / PROCESS

- Due to recent stream of overseas acquisition by Indian Companies , there is a 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 ICAI decided to CONVERGE and not to ADOPT IFRS isssued by IASB.
- The ICAI has worked towards Convergence of global accounting standards and issued IND AS under the Supervision and Control of ASB (ACCOUNTING STANDARD BOARD) and in Consultation with NFRA (NATIONAL FINANCIAL REPORTING AUTHORITY).

How many Accounting Standards?

1 Disclosure of Accounting Policies.
2 Valuation of Inventories (Revised).
3 Cash Flow Statement.
4 Contingencies and Events Occurring after the Balance Sheet Date (Revised).
5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies.
7 Construction Contracts.
9 Revenue Recognition .
10 Property, Plant and Equipment (Revised).
11 The Effects of Changes in Foreign Exchange Rates (Revised).
12 Accounting for Government Grants.
13 Accounting for Investments (Revised).
14 Accounting for Amalgamations (Revised).
15 Employee Benefits .
16 Borrowing Costs.
17 Segment Reporting.
18 Related Party Disclosures.

HOW MANY ACCOUNTING STANDARDS?

19 Leases.
20 Earnings Per Share .
21 Consolidated Financial Statements (Revised).
22 Accounting for Taxes on Income .
23 Accounting for Investments in Associates in Consolidated Financial statements.
24 Discontinuing Operations .
25 Interim Financial Reporting .
26 Intangible Assets .
27 Financial Reporting of Interests in Joint Ventures .
28 Impairment of Assets .
29 Provisions, Contingent Liabilities and Contingent Assets (Revised) .

NOTE : Accounting standard 6 (Depreciation) Merged with AS 10.
Accounting Standard 8 (Accounting Policies , Changes in Accounting Estimates and Errors) Merged with AS 26.

CARVE IN & CARVE OUTS

- 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.
This differences which are in Deviation to the Accounting Principles and Practises 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’ .

THANK YOU!

Ashutosh Kumar !