ACCOUNTING STANDARDS

1. Definition:

Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to the various stakeholders associated with the organisation. 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.

2. Standard setting process:

The Institute of Chartered Accountant of India (ICAI) took the leadership role in setting up Accounting Standard Board (ASB) in 1977. ASB is an independent body who issues accounting standards in consultations with various regulatory bodies and other associations, taking into consideration the International Accounting Standards (IASs)/ International Financing Reporting Standards (IFRS).

The composition of ASB includes representatives of industries (such as ASSOCHAM, CII, FICCI etc.), regulators (such as SEBI, MCA, IRDA etc.), academicians, Government departments etc.

The steps involved in setting accounting standards are:

Step 1: Identification of area.
Step 2: Constitution of study group
Step 3: Preparation of draft and its circulation.
Step 4: Ascertainment of views of different bodies on draft.
Step 5: Finalisation of exposure draft.
Step 6: Comments received on exposure draft.
Step 7: Modification of draft
Step 8: Issue of ASs.

3. Number of accounting standards:

There are 32 ASs starting from AS-1 to As-32 in all out of which AS -8 (Accounting for Research and Development) has been withdrawn with the introduction of AS- 26 (Intangible Assets). Therefore, at present 31 standards are in effect.

4. Merits and demerits:

Merits	Demerits
• Standardisation of alternative accounting treatments. • Requirements of additional disclosure. • Comparability of financial statements.	• Difficulties in making choice between different alternatives. • Lack of flexibilities. • Restricted scope.

5. International scenario:

In June 1973, the London based group International Accounting Standard Committee (IASC) was established with a view to introduce International Accounting Standards (IASs). At present this is known as International Accounting Standard Board (IASB). IASB comprises professional bodies over 75 countries around the world of which ICAI is a member.

Between 1973 to 2001 IASC released IASs. Later after a structural change IASB published IFRS after 2001. Both these IASs and IFRSs are in effect. At present there are 41 IASs and 14 IFRSs in effect.

6. Convergence of IFRS with Indian AS:

a) **Ind AS converged with IFRS:** MCA hoisted 35 Accounting standards converged with IFRS in its website without notifying the date of its applicability.

b) **Existing ASs:** entities which fall outside the purview of applicability of Ind AS shall continue to use the existing accounting standards.

7. Applicability of ASs:

Sec. 211(3A) of Companies Act, 1956 requires the companies to present their P/L Account and Balance Sheet in compliance with accounting standards. As per Sec. 311(3C) ASs for the purpose of Sec. 311(3A) means standard of accounting recommended by ICAI as may be prescribed by CG in consultation with the National Advisory Committee on Accounting Standards. Till date CG has notified all the accounting standards except AS 30, 31 and 32.

The SEBI has also set up a standing committee on accounting standards. IRDA has also set regulations for application of accounting standards in insurance business.

In case of income tax purpose CG has notified two accounting standards viz. Tax accounting standard 1 and 2 which are just similar to AS 1 and 5.

8. Criterion for classification of non corporate entity as decided by ICAI:

Level I Enterprise	**Level II Enterprise**	**Level III Enterprise**
• Whose equity or debt securities are listed in India or outside India or which are in the process of listing the equity or debt securities as evidenced • Banks including co-operative banks • Financial institutions • Those carrying insurance business • Whose turnover exceeds ₹ 50 crore • Whose borrowings are in excess of ₹ 10 crore at any time during the accounting period • Holding and subsidiaries of enterprise falling under any one of the categories mentioned above	• Whose turnover exceeds ₹ 1 crore but does not exceed ₹ 50 crore • Whose borrowings are in excess of ₹ 1 crore but does not exceed ₹ 10 crore at any time during the accounting period • Holding and subsidiaries of enterprise falling under any one of the categories mentioned above	Which are not covered under level I or level II.

9. Criterion for classification of companies under Companies (Accounting Standards) Rules, 2005:

- **Small and Medium sized companies [SMCs]:** companies whose (a) securities are not listed; (b) not a bank or financial institution or insurance company; (c) turnover does not exceed 50 crore; (d) borrowing does not exceed 10 crore; (e) not a holding or subsidiary of a SMC.
- **Non-SMCs:** are those which do not fall under the definition of SMCs.

AS: 1,2,4,5,6,7,9,10,11,12,13,14,16,18,22,24,26	Applicable to all companies
AS: 3,17	Not applicable to SMCs with their entirety
AS: 21,23,27	Not applicable to SMCs
AS: 15,19,20,28,29	Some relaxations are given to SMCs
AS: 1,2,4,5,6,7,9,10,11,12,13,14,16,22,26	Applicable to all Level I, II and III enterprise
AS: 3,17	Not applicable to Level II in their entirety
AS: 3,17, 18,24	Not applicable to Level III
AS: 21, 23, 27	Applicable only to level I
AS: 15, 19, 20, 28, 29	Some relaxations are given to Level II and II
AS 25 on Interim financial reporting does not require any corporate or non-corporate entity to present their interim financial report. Only certain Level I non corporate entity or non-SMCs are required to follow this standard as per SEBI norms.	

Q.1. Comment on whether the following Companies can be classified as SMC as per the Companies (Accounting Standards), Rules, 2006:

a) A Pvt. Ltd., a subsidiary of a multinational company listed on London Stock Exchange. It has a turnover of ₹ 12 crores and borrowings of ₹ 5 crores.

b) B Pvt. Ltd., has a turnover of ₹ 45 crores, other income of ₹7 crores and bank borrowing of ₹ 9 crores.

Ans.: a) Non-SMC. Since the given company is a subsidiary of a MNC which is listed (may be in India or outside India) in London Stock Exchange. The other information is not relevant.

b) SMC. Since any of the criteria has not been fulfilled. Other income is not clubbed with turnover for this classification.

Q.2. M/s Omega & Co. (a partnership firm), had a turnover of 1.25 crores (excluding other income) and borrowings of 0.95 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2013. Advise the management of M/s Omega & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI.

Ans. Hint. State briefly the criterion of Level I and II entities. Since the turnover is more than ₹ 1 crore, it falls under level II SME though the borrowing is less than 1 crore.

Also state the standards which will not be applicable to this enterprise and also the AS on which relaxation has been given.

Q.3. List the criteria to be applied for rating an enterprise as Level-I enterprise for the purpose of compliance of Accounting Standards in India. (4 Marks, N07)