CHAPTER 4

Accounting Standards: Concepts and Objectives, International Financial Reporting Standards (IFRS)

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Accounting Standards	Accounting Standards are the written policy documents covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions in the financial statements.
2. International Financial Reporting Standards (IFRS)	International Financial Reporting Standards (IFRS) are a set of accounting standards issued by International Accounting Standards Board (IASB) based on sound and clearly stated principles.

CHAPTER SUMMARY

- **Accounting Standards** are a set of guidelines, *i.e.*, generally accepted accounting principles, issued by the accounting body of the country such as The Institute of Chartered Accountants of India, that are followed for preparation and presentation of financial statements.
- The objective of setting Accounting Standards, is to bring uniformity in accounting practices and to ensure transparency, consistency and comparability.
- **International Financial Reporting Standards (IFRS)** are a set of accounting standards issued by IASB, which came into existence in the year 2001.
- IASB adopted existing International Accounting Standards (IAS) and SIC as their standards.
- IFRS-compliant financial statements are:
  - (i) Statement of Financial Position,
  - (ii) Comprehensive Income Statement,
  - (iii) Statement of Changes in Equity,
  - (iv) Statement of Cash Flow, and
  - (v) Notes and Summary of Significant Accounting Policies.

bodhiyla.com

- **Objectives of IASB are**:
  - (i) To develop, in the public interest, a single set of high-quality, understandable, and enforceable global accounting standards that require high-quality, transparent, and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions;
  - (ii) To promote the use and rigorous application of those standards;
  - (iii) In fulfilling the objectives associated with (i) and (ii), to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and
  - (iv) To bring about convergence of national accounting standards and International Financial Reporting Standards to high-quality solutions.
- **Benefits of IFRS** are to investors, industry and professionals worldwide.
- **Difference between IFRS and Indian Accounting Standards.** The principal difference between the two is that while IFRS are based on principle and fair value, Indian Accounting Standards are based on rules and historical value.
- India has decided to converge Indian Accounting Standards with IFRS and has issued IFRS equivalent accounting standards titled *'Ind-AS'*.

Accounting Standards

bodhiyla.com

Accounting Standards are the policy document guiding the measurement, treatment and disclosure of financial or accounting transactions. They are issued by the accountancy body such as the Institute of Chartered Accountants of India (ICAI). In other words, accounting standards are the guidelines for accounting policies and practices to be adopted and followed in accounting and presentation of financial statements.

A regulated financial accounting process ensures consistency, reliability, comparability and correctness of financial statements. Accounting standards guide the measurement and treatment of financial transactions and their disclosure in the financial statements.

In India, accounting standards have been formulated and issued by the Institute of Chartered Accountants of India (ICAI). They are applicable on the entities, other than companies, for preparation and presentation of financial statements. The Companies Act, 2013 has recognised these accounting standards (Accounting Standard-1 to Accounting Standard-29) issued by the Institute of Chartered Accountants of India that are followed by the companies. The Companies Act, 2013 has not recognised Accounting Standard-30, Accounting Standard-31 and Accounting Standard-32. Also, these three accounting standards have been made recommendatory by the Institute of Chartered Accountants of India and not mandatory.

The Institute of Chartered Accountants of India has so far issued *thirty-two* accounting standards. These are:

AS No.	Title
AS-1	Disclosure of Accounting Policies
AS-2	Valuation of Inventories (Revised)
AS-3	Cash Flow Statements (Revised)
AS-4	Contingencies and Events Occurring after the Balance Sheet Date (Revised)
AS-5	Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies
AS-6	Depreciation Accounting (Revised)*
AS-7	Construction Contracts
AS-8	Accounting for Research and Development*
AS-9	Revenue Recognition
AS-10	Property, Plant and Equipment
AS-11	The Effects of Changes in Foreign Exchange Rates (Revised)
AS-12	Accounting for Government Grants
AS-13	Accounting for Investments
AS-14	Accounting for Amalgamations
AS-15	Employee Benefits (Revised 2005)
AS-16	Borrowing Costs
AS-17	Segment Reporting
AS-18	Related Party Disclosures
AS-19	Leases
AS-20	Earnings Per Share
AS-21	Consolidated Financial Statements
AS-22	Accounting for Taxes on Income
AS-23	Accounting for Investments in Associates in Consolidated Financial Statements
AS-24	Discontinuing Operations
AS-25	Interim Financial Reporting
AS-26	Intangible Assets
AS-27	Financial Reporting of Interests in Joint Ventures
AS-28	Impairment of Assets
AS-29	Provisions, Contingent Liabilities and Contingent Assets
AS-30	Financial Instruments: Recognition and Measurement**
AS-31	Financial Instruments: Presentation**
AS-32	Financial Instruments: Disclosures and Limited Revision to AS-19 on Leases**

*It is Withdrawn.

**Not recognised by the Companies Act, 2013.

bodhiyla.com

International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS), like Indian Accounting Standards, are the international accounting standards based on which financial statements of enterprises are prepared and presented. These standards have been formulated with the aim that globally financial statements are prepared by all the entities following same accounting standards so the users across the world are able to understand them in the same manner.

International Accounting Standards Board (IASB) was set up in the year 2001 taking over the International Accounting Standards Committee (IASC) which was set up in 1973. IASC had issued International Accounting Standards which have been adopted by the IASB to be replaced by IFRS upon their issuance. IFRS are referred to as principles based accounting standards as IASB places emphasis on developing standards based on sound and clearly stated principles.

In view of the fact that economic environment and laws differ in each country and India is no exception. India decided to issue its own accounting standards that are equivalent to IFRS. The Institute of Chartered Accountants of India has issued IFRS equivalent Indian Accounting Standards titled IND–AS.

bodhiyla.com

Difference between IFRS and Indian Accounting Standards

IFRS are *Principle based* standards while Indian Accounting Standards are *Rule based*.

Unlike Indian Accounting Standards, IFRS do not prescribe any form for preparing the financial statements. For example, under the Indian laws, Balance Sheet and Statement of Profit and Loss are prepared according to Schedule III of the Companies Act, 2013 or in the form as near thereto. Contrary to this, IFRS does not prescribe form for preparing the financial statements. It prescribes that the items may be shown in the Balance Sheet according to the principle associated with it. Elaborating it, Redeemable Preference Shares are shown as Share Capital in the Balance Sheet under Schedule III of the Companies Act, 2013. But, under IFRS based Balance Sheet, it is shown as borrowing. The principle being that preference shares carry fixed rate of dividend and have to be redeemed after the specified date. Therefore, in the real sense it is loan.

IFRS are based on *Fair Value Concept* while Indian Accounting Standards are based on *Historical Cost Concept*.

Indian Accounting Standards require that assets should be carried in the Balance Sheet at their historical cost and depreciated on the basis of their useful life. But, in the IFRS based Balance Sheet, fair value concept may be adopted. It means that assets be valued at their fair value each year and difference be debited or credited to the Income Statement.

Besides the above two basic differences, there are differences in other areas also. Some of the areas where there is difference in the two standards are as follows:

- Revenue recognition
- Prior Period Items
- Inventory valuation in Service Sector
- Extraordinary Items
- Accounting of Taxes on Income
- Regrouping/Reclassification
- Useful Life of Intangible Assets
- Impact on Fixed Assets
- Current and Non-current Classification

bodhiyla.com