4.1 INTRODUCTION

The management of every business house is interested in reliable accounting data so that it may get the required information for making correct decisions and discharge its functions efficiently, moreover the shareholders, investors, creditors, workers, Governments, researchers etc. whom so ever are interested in reliable accounting data. Accounting Standards play a very significant role in making it possible that the people get the reliable and comparable accounting data. Since the accounting principles are broad guidelines for general application therefore they permit a wide variety of methods and practices. The lack of uniformity in accounting practices makes it difficult to compare the financial reports of different companies. Moreover, the multiplicity of accounting practices makes it possible for management to conceal economic realities by selecting those alternative presentations of financial results which allow earnings to be manipulated. The Financial statements prepared under such conditions, therefore may have limited usefulness for users of information. This problem has been recognized all over the world and various professional bodies are engaged in the task of standardising accounting practices.
4.2 ACCOUNTING STANDARD IN FORCE

Realizing that there was a need of accounting standards in India and keeping in view the international developments in the field of accounting, the Council of the Institute of Chartered Accountants of India constituted the Accounting standards Board (ASB) on April 21, 1977. The Accounting standard Board is performing the function of formulating the Accounting Standard. In the course of preparation of Standards, it takes into accounts the applicable laws, customs, usages and business environment. The accounting Standard Board consists of representatives of Industries, central board of direct taxes and the controller and Auditor General of India. 29 accounting standards have been issued so far out of which As-8 has been withdrawn. It has been replaced by AS-26.

AS – 1 Disclosure of accounting Policies

AS – 2 Valuation of Inventories

AS – 3 Cash flow statement

AS – 4 Contingencies and events occurring after the Balance sheet date.

AS – 5 Prior period and extra ordinary items and changes in accounting policies
AS – 6  Depreciation Accounting
AS – 7  Accounting for construction contract
AS – 8  Accounting for Research and Development
AS – 9  Revenue recognition
AS – 10 Accounting for Fixed Assets
AS – 11 Accounting for foreign transaction and exchange rates
AS – 12 Accounting for Government grants
AS – 13 Accounting for Investments
AS – 14 Accounting for Amalgamation
AS – 15 Accounting for Retirement benefits in the financial statement of employees
AS – 16 Accounting for Borrowing costs
AS – 17 Segment reporting
AS – 18 Related party disclosure
AS – 19 Accounting of Leases
AS – 20 Earning per share
AS – 21 Consolidated financial Statements
Chapter-IV: Standard Accounting Practice Issued by Institute of Chartered Accountants of India

**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** Accounting for intangible assets

**AS – 27** Financial reporting of interests in Joint ventures

**AS – 28** Accounting of Impairment of assets

**AS – 29** Accounting for contingent liabilities.

**AS – 30** Financial Instrument.

**AS – 31** Financial Instrument: Presentation.

**AS – 32** Financial Instruments, Disclosures and Limited Revision to Accounting Standards.
Accounting standards in details

Each standard speaks about certain specific feature. All 32 accounting standards are explained in detail as given below.

4.2.1 AS – 1 Disclosure of Accounting Policies

It is effective from April, 1993 and mandatory in nature. It provides that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed in one place as a part of financial statements. Any change in the accounting policies which has a material impact in the current period or which is expected to have material effect in later periods should be disclosed and amount by which any item in the financial statements is affected by such change should be quantified and disclosed to the extent as certain. When such amount is not ascertainable, the fact should be mentioned. If any of the fundamental accounting assumption (Viz. going concern, consisting and accrual) is not followed, the fact should be disclosed.

4.2.2 AS – 2 Valuations of Inventories

It is revised and effective from April, 1999 and mandatory in nature. As per this standard inventories include raw materials and components, work in process Finished goods, stores and spare parts. Inventories
should be valued at the lower of cost and net realisable value. The cost of inventories should be assigned by using the first-in-first out, or weighted average cost formula. The cost of inventories should comprise all the cost of purchase, cost of conversion and other cost is carried in bringing inventories at the present location and condition. The Financial statements should disclose:

(a) The accounting policies adopted in measuring inventories, including cost formula used; and

(b) The total carrying amount of inventories and its classification appropriate to the enterprise.

(c) Any change in the accounting policy relating to inventories which has a material effect in the current period or which is expected to have a material impact in later period should be quantified

4.2.3 AS – 3 Cash Flow Statement

It is effective from April, 2001 and mandatory in nature. An enterprise should prepare a cash flow statement and should present it for each period for which financial statements are presented. Cash flow statement should report cash flow during the period classified by operating, investing and financing activities.
4.2.4 **AS – 4 Contingencies and Events Occurring After the Balance Sheet Date**

This standard was issued first in November 1982. It is mandatory in respect of accounts prepared for the periods commencing on after January, 1987. This standard deals with:

i. Contingencies and

ii. Events occurring after the balance sheet date.

Contingencies are conditions or situations, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence or non-occurrence, of one or more uncertain future events.

Events occurring after the balance sheet date are “those significant events, both favourable and un-favourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in case of a company, and by the corresponding approving authority in the case of any other entity.”
4.2.5 **AS – 5  Prior Period and Extra Ordinary Items and Changes in Accounting Policies**

It is effective from April, 1996 and mandatory in nature. This standard deals with the disclosure of extra ordinary items and prior period items. It also specifies that the proper disclosure should be made in financial statements regarding changes in accounting policies. Proper disclosure of all these items should be made in financial statements so as to ensure their uniformity and to make inter firm and intra firm comparison possible.

4.2.6 **AS – 6  Depreciation Accounting**

It is effective from April, 1995 and mandatory in nature. The depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset. The depreciation method selected should be applied consistently from period to period. A change from one method of depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting Standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise.
4.2.7 AS – 7 Accounting For Construction Contract

This standard came into effect in respect of all contracts entered into from the accounting period commencing on or after April, 2003 and is mandatory in nature. The objective of this statement is to prescribe the accounting treatment of revenue and costs associated with construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods.

4.2.8 AS – 8 Accounting for Research and Development

It relates to the accounting treatment for costs of research and development in financial statement. It was mandatory in nature. It will stand withdrawn from the date the new AS-26, “Intangible Assets” becomes mandatory.

4.2.9 AS – 9 Revenue Recognition

This standard is mandatory in nature and deals with the bases for recognition of revenue in the statement of profit and loss of an enterprise. Revenue is defined by the standard as “Gross inflow of cash, receivables or other considerations arising in the course of ordinary activities of an
enterprise from the sale of goods, from rendering of services and from the use by others of the resources of the enterprise yielding interest, royalties and dividend. Revenue recognition is mainly concerned with the timing of recognition of revenue in the statement of profit and loss of an enterprise.

4.2.10 AS – 10 Accounting for Fixed Assets

This standard was issued in November 1985 and is mandatory. Fixed assets are those, which are required for use in the business and not for sale. This standard gives directions for proper accounting of these assets on the basis of the cost and life of such assets. This standard requires following disclosures in the financial statements:

(i) Gross and net book values of fixed assets at the beginning and end of accounting period showing additions, disposals acquisitions and other movements.
(ii) Expenditure incurred on account of fixed assets in the course of construction or acquisition, and
(iii) Valued amount substituted for historical cost of fixed assets. The method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved if fixed assets are stated at revalued amounts.
4.2.11 AS – 11 Accounting For Foreign Transaction and Exchange Rates

This standard came into effect in respect of accounting periods commencing on or after April 1, 1995. It is mandatory with effect from April 1, 2004. This standard provides that how to recognize the financial effect of changes in foreign exchange rates in the financial statements of the reporting entity. Two currencies are involved in determining an exchange rate

(i) Foreign currency
(ii) Reporting currency.

4.2.12 AS – 12 Accounting for Government Grants

This standard came into effect in respect of accounting periods commencing on or after April, 1992 and became mandatory for accounting periods commencing on or after April, 1994. This standard deals with accounting for government grants. Government grants are assistance by Government in cash or kind to an enterprise for past or future compliance with certain conditions.

4.2.13 AS – 13 Accounting for Investments

This standard is effective from April, 1995 and mandatory in nature. According to this standard current investment and long term investments are to be disclosed separately along with future classification.
Classification of current and long term investment should be specified in the statute governing the enterprise, in the absence of a statutory requirement, such further classification should disclose, where applicable, investment in:

i. Government or trust securities  
ii. Share, debenture or bonds  
iii. Others: specifying nature

4.2.14 AS – 14 Accounting for Amalgamation

This standard is effective from April, 1995 and mandatory in nature. This standard is related with the accounting for amalgamation and treatment of resultant goodwill or capital reserve. According to this standard amalgamation can be of two types:

(i) Amalgamation in the nature of merger  
(ii) Amalgamation in the nature of purchase.

This standard provides that following disclosure should be made in the first financial statements following the amalgamation:

(a) Names and general nature of business of the amalgamating companies;  
(b) Effective date of amalgamation for accounting purpose;  
(c) The method of accounting used to reflect the amalgamation and  
(d) Particulars of the scheme sanctioned under a statute.
4.2.15 AS – 15 Accounting for Retirement Benefits in the Financial Statement of Employees

This standard came into effect in respect of accounting periods commencing on or after April 1, 1995. This standard deals with the accounting for retirement benefits in the form of provident fund, superannuation/pension and gratuity provided to the employees whether in pursuance of requirements of any law or otherwise, in the financial statements of employers. It also applies to retirement benefits in the form of leave encashment benefit, health and welfare schemes.

4.2.16 AS – 16 Accounting for Borrowing Costs

This standard came into effect in respect of accounting period commencing on or after April, 2000 and is mandatory in nature. This standard should be applied in accounting of borrowing cost. Borrowing cost are interest and other cost are incurred by an enterprise in connection with the borrowing of funds.

4.2.17 AS – 17 Segment Reporting

This standard came into effect in respect of accounting period commencing on or after April 1, 2001 and is mandatory in respect of the following:
(a) Enterprise whose equity or debt securities are listed on a recognised stock exchange in India.

(b) All other commercial industrial and business reporting enterprise whose annual turnover is more than `50 crore.

The objective of this standard is to establish principles for reporting financial information about different types of products and services an enterprise produces and the different geographical areas in which it operates.

4.2.18 AS – 18 Related Party Disclosures

This standard came into effect in respect of accounting period commencing on or after April 1, 2001. The objective of this standard is to establish requirements for disclosure of related party relationship and transaction between a reporting enterprise and its related parties.

This standard should be applied in reporting related parties relationships and transaction between a reporting enterprise and its related parties. The requirements of this standard apply to the financial statement of each enterprise and as also to consolidate, financial statement presented by a holding company.
4.2.19 AS – 19 Accounting of Leases

This standard came into effect in respect of all assets leased during accounting periods commencing on or after April 1, 2001. The objective of this standard is to prescribe for leases and leasers, the appropriate accounting policies and disclosure in relation to finance leases and operating leases.

This standard should be applied in accounting for all leases other than:

(a) Lease agreement to explore for us natural resource such as oil, gas and timber etc:
(b) Licensing agreement for items like motion picture films plays patents and copyrights; and
(c) Lease agreements to use

4.2.20 AS – 20 Earning Per Share

This standard came into effect in respect of accounting periods commencing on or after April 1, 2001. The objective of this standard is to prescribe principles for the determination and presentation of earnings per share, which will improve comparison of performance among different enterprises for the same period and among different accounting periods for the same enterprise. The focus of this standard is on the denominator of the earning per share.

This standard is applied to enterprises whose equity or potential equity shares are listed on a recognised stock exchange in India. An
enterprise which has neither equity shares nor potential equity shares which are so listed but which discloses earnings per share should calculate and discloses earnings per share in accordance with this standard. In consolidated financial statements, should be presented on the basis of consolidated information.

4.2.21 **AS – 21 Consolidated Financial Statements**

This standard came into effect in respect of accounting periods commencing on or after April 1, 2001. It lays down the principles and procedures for the preparation and presentation of consolidated financial statements for a group of enterprise under the control of a parent. This standard is also applied in accounting for investments in subsidiaries in the separate financial statements of a parent.

**Scope of Consolidation:**

(a) All subsidiaries, whether domestic or foreign to be included in consolidation.

(b) Subsidiaries with dissimilar business activities should also be consolidated.

(c) Accounting for investments in subsidiaries would then be governed by AS-13.
4.2.22 AS – 22 Accounting For Taxes on Income

This standard deals with the accounting treatment for taxes on income. It is mandatory in nature for accounting periods commencing on or after April, 2001, for listed enterprises and on or after April, 2003 for others.

The objective of this standard is to establish principles for

(i) Treatment of taxes on income
(ii) Determine the amount of expenses on saving related to taxes on an income.
(iii) Disclosure in the financial statements.

4.2.23 AS – 23 Accounting For Investments in Associates in Consolidated Financial Statements

This standard deals with the accounting for investment is associates in consolidated financial statement. The standard comes into effect in respect of accounting periods commencing on or after April, 2002. The objective of this standard is to set out principles and procedures for recognizing in the consolidated financial statements the effects of investment in associates on the financial position and operating result of a group.
4.2.24 **AS – 24 Accounting of Discontinuing Operations**

This standard is mandatory with effect from April 1, 2004 for all listed companies and business entities having annual turnover in excess of ` 50 Crores. For all other enterprise, As-24 will become mandatory with effect from April 1, 2005. The objective of the standard is to establish the principles for reporting information about discounting operation. Such information would help the users about the financial statement to make projection of enterprise cash flows earnings generating capacity and financial position by segregating information about discounting operation from operation about continuing operation.

4.2.25 **AS – 25 Interim Financial Reporting**

This accounting standard has come into effect in respect of accounting periods commencing on or after April, 2002. Interim period is a financial reporting period shorter than a full financial year. This would represent quarterly and half yearly periods in the case of listed companies as required by SEBI. AS-25 does not apply to the first accounting period of an enterprise which may be shorter than a financial period, such shorter period is not an interim period. On the basis of the same logic, though not stated in AS-25, a shorter accounting period consequent to change in an accounting period is not an interim period.
4.2.26   **AS – 26 Accounting Of Intangible Assets**

This standard deals with accounting treatment of intangible assets. It is mandatory in nature and comes into effect in respect of expenditures incurred on intangible assets on or after April, 2003 for listed enterprises and enterprises having turnover above ` 50 crores. For other enterprises it comes into effect on or after April 1, 2004.

4.2.27   **AS – 27 Financial Reporting of Interest in Joint Ventures**

This standard deals with the financial reporting of an enterprise’s interest in Joint Ventures. It came into effect in respect of accounting periods commencing on or after April, 2002. This standard is mandatory in nature. The objective of this standard is to set out principles and procedures for:

i. Accounting for interest in joint ventures

ii. Reporting of Joint venture assets, Liabilities, income and expenses in the financial statements of the parties to joint ventures.
4.2.28 AS – 28 Accounting of Impairment of Assets

This standard deals with the accounting treatment of assets, which have been impaired. It came into effect in respect of accounting periods commencing on or after April, 2004 for listed enterprises. It is applicable to those enterprises, which are having turnover of more than ` 50 crores. This standard is mandatory in nature. Impairment denotes loss in value. An asset is deemed impaired when it’s carrying amount (i.e. depreciated value) exceeds its recoverable amount. The difference is called as impairment loss. The impairment loss should be recognised as an expense in the statement of profit and loss immediately.

4.2.29 AS – 29 Accounting of Provisions, Contingent Liabilities and Contingent Assets

It is mandatory accounting standard effective from April 1, 2004. The standard provides to make distinction between provisions and contingencies and suggest recognition and disclosure requirements for these items. According to this standard provisions are different from outstanding liabilities because in the case of provisions amount is based on estimates while liabilities are always certain and hence no estimation is involved.

4.2.30. AS-30 Financial Instrument: Recognition and Measurement, issued by The Council of the Institute of Chartered Accountants of India, comes into effect in respect of Accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period
of two years. This Accounting Standard will become mandatory in respect of Accounting periods commencing on or after 1-4-2011 for all commercial, industrial and business Entities except to a Small and Medium-sized Entity. The objective of this Standard is to establish principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in Accounting Standard.

**4.2.31 AS-31 Financial Instrument: Presentation:** The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset. The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in Accounting Standard Financial Instruments:
4.2.32. **AS-32 Financial Instruments, Disclosures And Limited Revision To Accounting Standards:**

The objective of this Standard is to require entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity’s financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the reporting date, and how the entity manages those risks.

The above-mentioned accounting standards are issued by the ICAI in general. Speaking for the specific industry all accounting standards is not applicable to every industry. Most of the industries have made provisions of using accounting standards to their needs. They reflect only those accounting standards, which are of their use. Same is there in the case of sugar industry. Sugar industries are using certain specific accounting standards.