2.1. INTRODUCTION

Accounting is an information system. Its primary aim is to provide financial position and performance of an enterprise to all the interested parties. This is done by means of financial statement. It is of utmost importance that such financial statements should reflect “true and fair” view of financial results (net worth, profit, state of affairs and so on) of the business enterprises. In practice, wide range of accounting methods are in vogue in the preparation and presentation of the financial statements.¹

“Necessity is the mother of invention” – is an age old saying. Accordingly, over a period of time, the accounting profession tried to standardise set of rules and the necessary accounting procedure to present financial statements in order to achieve uniformity and comparability with precision and accountancy. Outcome of such tireless activities by the accounting professionals is the birth of “Accounting Standards.”²

Generally Accepted Accounting Principles (GAPP) in India, are lenient in permitting enterprises to adopt the accounting procedure at the discretion of individual entrepreneurs. The net result thus experienced is the offering of Accounting Standards and the collapse of big corporate entities.

² Ghosh, T.P, Accounting standards and corporate accounting practices, Published by Taxman New Delhi.
In an era of globalization, it is essential to adopt transparent accounting norms in valuation of fixed assets, revenue recognition, valuation of inventories, classification and valuation of investments, foreign currency translations, provision for risky assets, contingent liabilities, treatment of expenditure on research and development for any type of business enterprises. It is imperative to highlight the need for accounting standard as the Indian companies have been trying access global markets for issuing global depositary receipts. Under those circumstances, the financial statements must possess transparency consistency, adequacy, accuracy and comparability, with adequate disclosures.

**Meaning and Definition of Accounting Standards**

Accounting Standards are written statements of accounting rules and guidelines to prepare financial statement. It may also be said that Accounting Standards are codified forms of GAPP. Accounting Standards consists of detailed rules to be adopted for the treatment of various items in accounting process so as to attain uniformity and consistency in internal and external reporting process. The main thrust in the preparation of Accounting Standards is to achieve global uniformly and comparability and there by bridging the gap that exists in numerous and diverse accounting practices.

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3 Gopalsamy N, Corporate Governance the new paradigm, Wheeller publishing Allahabad.
2.2 ADVENT OF ACCOUNTING STANDARDS IN INDIA

Accounting is the art of recording transactions in the best manner possible, so as to enable the reader to arrive at judgments/come to conclusions, and in this regard it is utmost necessary that there are set guidelines\(^5\). These guidelines are generally called accounting policies.\(^6\) The intricacies of accounting policies permitted Companies to alter their accounting principles for their benefit. This made it impossible to make comparisons. In order to avoid this problem and to have a harmonised accounting principle, Standards needed to be set by recognised accounting bodies. This paved the way for Accounting Standards to come into existence.

Accounting standards are needed so that financial statements will fairly and consistently describe financial performance. Without standards, users of financial statements would need to learn the accounting rules of each company, and comparisons between companies would be difficult.

Accounting standards used today are referred to as Generally Accepted Accounting Principles (GAAP). These principles are "generally accepted" because an authoritative body has set them or the accounting profession widely accepts them as appropriate.

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\(^5\) Jahwar Lal Contemporary Accounting Issues, Published by Vision Books New Delhi.
Securities and Exchange Commission (SEC) is a U.S. regulatory agency that has the authority to establish accounting standards for publicly traded companies. The Securities Act of 1933 and the Securities Exchange Act of 1934 require certain reports to be filed with the SEC. For example, Forms 10-Q and 10-K must be filed quarterly and annually, respectively. The head of the SEC was appointed by the President of the United States. When the SEC was formed there was no standards-issuing body. However, rather than set standards, the SEC encouraged the private sector to set them. The SEC has stated that FASB standards are considered to have authoritative support.

In 1939, encouraged by the SEC, the American Institute of Certified Public Accountants (AICPA) formed the Committee on Accounting Procedure (CAP). From 1939 to 1959, CAP issued 51 Accounting Research Bulletins that dealt with issues as they arose. CAP had only limited success because it did not develop an overall accounting framework, but rather, acted upon specific problems as they arose.

In 1959, the AICPA replaced CAP with the Accounting Principles Board (APB), which issued 31 opinions and 4 statements until it was dissolved in 1973. GAAP essentially arose from the opinions of the APB. The APB was criticized for its structure and for several of its positions on controversial topics. In 1971 the Wheat Committee (chaired by Francis Wheat) was formed to evaluate the APB and propose changes.
The Wheat Committee recommended the replacement of the Accounting Principles Board with a new standards-setting structure. This new structure was implemented in 1973 and was made up of three organizations:

- Financial Accounting Foundation (FAF)
- Financial Accounting Standards Board (FASB)
- Financial Accounting Standards Advisory Council (FASAC).

Of these organizations, **FASB (pronounced "FAS-B")** is the primary operating organization. Unlike the APB, FASB was designed to be an independent board comprised of members who have severed their ties with their employers and private firms. FASB issues statements of financial accounting standards, which define GAAP. The AICPA issues audit guides. FASB plays an important role in case of conflict.

**The International Accounting Standards Committee (IASC)** was formed in 1973 to encourage international cooperation in developing consistent worldwide accounting principles. In 2001, the International Accounting Standards Board (IASB), an independent private sector body that is structured similar to FASB, succeeded the IASC.
The main objectives of IASC were:

(i) To formulate and publish the standards to be observed in the presentation of audited financial statements and to promote world wide acceptance and

(ii) To work generally for improvement and harmonization of regulations, accounting standards and procedures relating to presentation of financial statements.

IASC has so far issued 47 Exposure Drafts (Comments and suggestions of leading professionals bodies) and has come out with 41 International Accounting Standards (IAS) relating to various items in accounting process.

In India, Sec 209 (1) of the Companies Act, 1956 stipulates that the financial statements of a company should give true and fair view of its (company’s) profits and financial position. This is the statutory provision for the companies registered under this act regarding Accounting Standards.
Constitution of Accounting Standard Board in India

Accounting Standard Board (ASB) was set up in India on April 21, 1977 with a view to harmonise the diverse accounting policies and practices in India. The Council of the Institute of Chartered Accountants of India (ICAI) set up ASB. ICAI, being one of the members of IASC, while formulating the Accounting Standards, gives much weight to the standards issued by IASC. ICAI tries to incorporate those international standards in India, keeping in view with the conditions and practices prevailing in India.

2.3 STANDARD ISSUING AUTHORITY IN INDIA AN INTRODUCTION

The Institute of Chartered Accountants of India (ICAI) is a statutory body established under the Chartered Accountants Act, 1949 (Act No. XXXVIII of 1949). It was established for the regulation of the profession of Chartered Accountants in India. During its 61 years of existence, ICAI has achieved recognition as a premier accounting body not only in the country but also globally, for its contribution in the fields of education, professional development, maintenance of high accounting, auditing and ethical standards. ICAI now is the second largest accounting body in the whole world.
2.3.1 Establishment of the ICAI

The Institute of Chartered Accountants of India was established under the Chartered Accountants Act, 1949 passed by the Parliament of India.

2.3.2 Object of Establishment

It was established with the objective of regulating accountancy profession in India. ICAI is the second largest professional accounting body in the world in terms of membership second only to AICPA. It prescribes the qualifications for a Chartered Accountant, conducts the requisite examinations and grants license in the form of Certificate of Practice. Apart from this primary function, it also helps various government agencies like RBI, SEBI, MCA, CAG, IRDA, etc. in policy formulation. ICAI actively engages itself in aiding and advising economic policy formulation. For example ICAI has submitted its suggestions on the proposed Direct Taxes Code Bill, 2010. It also has submitted its suggestions on the Companies Bill, 2009. The government also takes the suggestions of ICAI as expert advice and considers it favorably. ICAI presented an approach paper on issues in implementing Goods and Service Tax in India to the Ministry of Finance. In response to this, Ministry of Finance has suggested that ICAI take a lead and help the government in implementing Goods and Services Tax (GST). It is because of this active participation in formulation economic legislation, it has designated itself as a "Partner in Nation Building".
2.3.3 The Council of the ICAI

A Council constituted under the Chartered Accountants Act undertakes the management of the affairs of the Institute, 1949. The Council consists of 32 elected fellow members and up to 8 members nominated by the Government of India. The members of the institute elect the elected members of the council under the single transferable vote system. The Council is re-elected every 3 years. The Council elects two of its members to be president and vice-president who hold office for one year. The president is the chief executive Authority of the Council.

Presidents


2.3.4 The Regional Councils of the ICAI

The Institute also has five Regional Councils that assist it in its functions. These Councils maintains a register of all members of the Institute in their region. They are:
1. The Northern India Regional Council (NIRC)
2. The Western India Regional Council (WIRC)
3. The Central India Regional Council (CIRC)
4. The Eastern India Regional Council (EIRC)
5. The Southern India Regional Council (SIRC)

2.3.5 Standing Committee of the ICAI and Their Functions

There are four standing committee of the ICAI. Serving different functions like regulating discipline, examination and finance etc. they are:

1. **Disciplinary:** Disciplinary Committee (old) under section 21D of the Chartered Accountants Act, 1949 is responsible for investigating and holding enquiries in respect of a complaint or Information against a member of the Institute under Section 21 (pending with the Council prior to the date of coming into force of the new Disciplinary Mechanism i.e. 17th November, 2006), where the Council is prima facie of opinion that the member has been guilty of any professional or other misconduct. It is further responsible for summoning of witnesses related to the case, enforcing their attendance and examining them on oath. It is also responsible for discovery and production of any documents and receiving evidences on affidavit. Finally it submit its Report of enquire to the Council of the Institute for its consideration and for
award of punishment/making recommendation of punishment to the High Court.

2. **Examination**: Examination committee is responsible for conducting exams of CA students on regular basis. It further issues study material to the students and maintain the authenticity of exams.

3. **Executive**: It is governing body of all the committees. It takes decision regarding the smooth functioning of the council.

4. **Finance**: The main function of this committee is to regulate finance and generation of finance from various activities of the board.

### 2.3.6 Accounting Standard Board (ASB)

Objective of Accounting Standards is to standardize the diverse accounting policies and practices with a view to eliminate to the extent possible the non-comparability of financial statements and the reliability to the financial statements. The institute of Chartered Accountants of India, recognizing the need to harmonize the diverse accounting policies and practices, constituted at Accounting Standard Board (ASB) on 21st April 1977.
Chapter-II : Accounting Standard In India

Formulation of the Accounting Standard Board

The composition of ASB is fairly broad-based and ensures participation of all interested groups in the standard-setting process. Apart from the elected members of the Council of the ICAI nominated on the ASB, the following are represented on the ASB:

(i) Nominee of the central government representing the Department of Company Affairs on the council of the ICAI.

(ii) Nominee of the central government representing the office of the Comptroller (Controller) and Auditor General of India on the council of ICAI.

(iii) Nominee of the central government representing the Central Board of Direct Taxes on the council of ICAI.

(iv) Representative of the Institute of Cost and Works Accountants of India.

(v) Representative of the Institute of Company Secretaries of India.

(vi) Representative of Industry Association from “Associated Chambers of Commerce and Industry (ASSOCHAM),” from Confederation of Indian Industry (CII) and from Federation of Indian Chambers of Commerce and Industry (FICCI).

(vii) Representative of Reserve Bank of India (RBI).

(viii) Representative of Securities and Exchange Board of India (SEBI).

(ix) Representative of Controller General of Accounts.

(x) Representative of Central Board of Excise and Customs.
(xi) Representative of academic institutions from universities and from Indian institutes of management.
(xii) Representative of financial institutions.
(xiii) Eminent professionals co-opted by ICAI.
(xiv) Chairman of the Research Committee and chairman of the Expert Advisory Committee of the ICAI, if they are not otherwise members of the Accounting Standards Board.
(xv) Representative of any other body, as considered appropriate by the ICAI.

Objectives and Functions

The following are the objective of the Accounting Standards Board:

(1) To conceive of the suggest areas in which Accounting Standards need to be developed.

(2) To formulate Accounting Standards with a view in assisting the council of ICAI in evolving and establishing Accounting Standards in India.

(3) To examine how far the relevant International Accounting Standard / International Financial Reporting Standard can be adapted, while formulating the Accounting Standards and to adapt the same.
(4) To review, at regular intervals, the Accounting Standards from the point of view of acceptance or changed conditions and, if necessary, revise the same.

(5) To provide, from time to time, interpretations and guidance on Accounting Standards.

(6) To carry out such other functions relating to Accounting Standards.

The main function of the Accounting Standards Board (India) is to formulate Accounting Standards so that such standards may be established by the ICAI in India.

According to the Companies (Amendment) Act, enacted in 1999, the central government is empowered to constitute an advisory committee, to be called the National Advisory Committee on Accounting Standards. Its objective is to advise the central government on the formulation and implementation of Accounting Standards in India. The advisory committee is more broad-based than the ASB.

**Scope of Accounting Standard in India**

In its preface to the Statement of Accounting Standards (Revised 2004), ASB outlined the scope of Accounting Standards.
- Efforts will be made to issue Accounting Standards, which are in conformity with the provisions of the applicable laws, customs, usages and business environment of our country. However, if due to subsequent amendments in the law, a particular Accounting Standard is found to be not in conformity with such law, the provision of the said law will prevail and the financial statements should be prepared in conformity with such law.

- The Accounting Standards by their very nature cannot and do not override the local regulations, which govern the preparation and presentation of financial statements in our country. However, the institute will determine the extent of disclosure to be made in financial statements and the related, auditor’s reports. Such discloser may be, by way of appropriate notes, explaining the treatment of particular items. Such explanatory notes will be only in the nature of clarification and thereof, need not be treated as adverse comments on the related financial statements.

- The Accounting Standards are intended to apply only to items, which are material. Any limitations with regard to the applicability of a specific standard will be made clear by the Institute from time to time. The date from which a particular standard will come into effect, as well as the class of enterprises to which it will apply, will also be specified by the Institute. However, no standard will have retrospective application, unless otherwise stated.
The institute will use its best endeavors to persuade the government, appropriate authorities, industrial and business community to adopt these standards in order to achieve uniformity in the presentation of financial statements.

In carrying out the task of formulation of Accounting Standards, the intention is to concentrate on basic matters. The endeavor would be to confine Accounting Standards to essentials and not to make them so complex that they cannot be applied effectively on nationwide basis.

The standards formulated by the ASB include paragraphs in bold italic and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this preface.

The ASB may consider any issue requiring interpretation on any Accounting Standards. Interpretations will be issued under the authority of the council. The authority of interpretation is the same as that of Accounting Standards to which it relates.

In the years come, it is to be expected that Accounting Standards will undergo revision and Accounting Standards with greater degree of sophistication may then be appropriate.

**Procedure of Issuing Accounting Standards**

A summarized extract of the text of the “Preface to the Statements of Accounting Standards (Revised 2004),” issued by the council of the
Institute of Chartered Accountants of India, explains the procedure of issuing Accounting Standards. They are:

(1) The ASB determines the board areas requiring formulation of Accounting Standards and lists them according to priority.

(2) In the preparation of Accounting Standards, the ASB is assisted by a Study Group, constituted for this purpose. Views of government, public sector undertakings, industry and other organisations are obtained before formulating the Exposure Draft.

(3) The Exposure Draft comprises the following:
   (i) Objective and scope of the standard.
   (ii) Definition of the terms used in the standard.
   (iii) The manner in which the accounting principles have been applied for formulating the standard.
   (iv) The presentations and disclosure requirements of it comply with the standard.
   (v) Class of enterprises to which the standard will apply.
   (vi) Date from which the standard will be effective.

(4) The Exposure Draft will be published in professional journals and circulated to obtain views and comments.

(5) ASB will finalise the standard after taking into consideration the suggestions received, and submit to the council of ICAI.

(6) The council of the ICAI will consider and, if necessary, amend the standards after consulting the ASB. Then, in its final form, the council issues the standard under its authority.

(7) For a substantive revision of Accounting Standards, procedure is the same as that of the procedure followed for formulation of new Accounting Standards.
Applicability of Accounting Standards

For the purpose of applicability of accounting periods, enterprises are classified into three categories: Level I enterprise, Level II enterprise, Level III enterprise.

Level-I Enterprise

Enterprises, which fall in any one or more of the following categories, at any time, during the accounting period, are classified as Level I enterprises:

1. Enterprises whose equity or debt securities are listed in Stock Exchange, whether in India or outside India.
2. Enterprises, which are in the process of listing in Stock Exchange, their equity or debt securities as evidenced by the Board of Directors resolution in this regard.
3. Bank including co-operative banks.
5. Enterprises carrying on insurance business.
6. All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements, exceeds ` 50 crores. Turnover does not include “other income”.
(7) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of `10 crores at any time during the accounting period.

(8) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

**Level-II Enterprise**

Enterprises, which are not Level I enterprises but fall in any one or more of the following categories are classified as Level II enterprises.

(1) All commercial, industrial and business reporting enterprises, whose turnover or the immediately preceding accounting period on the basis of audited financial statements exceeds `4 lakhs but does not exceed `50 crores.

(2) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of `1 crore but not in excess of `10 crore at any time during the accounting period.

**Level-III Enterprise**

Enterprises, which are not covered under Level I and Level II are considered as Level III enterprises.
### Status of the Accounting Standards Issued by the Institute of Chartered Accountants of India

The details of the standards are provided in the tabular column as follows:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Number of Accounting Standards (AS)</th>
<th>Title of the Accounting Standard</th>
<th>Date from which it has become mandatory. Accounting period commencing on or after</th>
<th>Enterprises to which applicable (level-I, II or III or All)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AS-1</td>
<td>Disclosure of accounting policies</td>
<td>01/04/1993</td>
<td>All</td>
</tr>
<tr>
<td>2</td>
<td>AS-2 (Revised)</td>
<td>Valuation of inventories</td>
<td>01/04/1999</td>
<td>All</td>
</tr>
<tr>
<td>3</td>
<td>AS-3 (Revised)</td>
<td>Cash flow statement</td>
<td>01/04/2001</td>
<td>Level I</td>
</tr>
<tr>
<td>4</td>
<td>AS-4 (Revised)</td>
<td>Contingencies and events occurring after the balance sheet date</td>
<td>01/04/1998</td>
<td>All</td>
</tr>
<tr>
<td>5</td>
<td>AS-5 (Revised)</td>
<td>Net profit or loss for the period, prior period items and changes in accounting policies</td>
<td>01/04/1996</td>
<td>All</td>
</tr>
<tr>
<td>6</td>
<td>AS-6 (Revised)</td>
<td>Depreciation accounting</td>
<td>01/04/1995</td>
<td>All</td>
</tr>
<tr>
<td>---</td>
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<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>7</td>
<td>AS-7 (Revised)</td>
<td>Construction contracts</td>
<td>01/04/2002</td>
<td>All</td>
</tr>
<tr>
<td>8</td>
<td>AS-8</td>
<td>Withdrawn – included in AS-26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>AS-9</td>
<td>Revenue recognition</td>
<td>01/04/1993</td>
<td>All</td>
</tr>
<tr>
<td>10</td>
<td>AS-10</td>
<td>Accounting for fixed assets</td>
<td>01/04/1993</td>
<td>All</td>
</tr>
<tr>
<td>11</td>
<td>AS-11 (Revised)</td>
<td>The effects of changes in foreign exchange rates</td>
<td>01/04/2004</td>
<td>All</td>
</tr>
<tr>
<td>12</td>
<td>AS-12</td>
<td>Accounting for government grants</td>
<td>01/04/1994</td>
<td>All</td>
</tr>
<tr>
<td>13</td>
<td>AS-13</td>
<td>Accounting for investments</td>
<td>01/04/1995</td>
<td>All</td>
</tr>
<tr>
<td>14</td>
<td>AS-14</td>
<td>Accounting for amalgamations</td>
<td>01/04/1995</td>
<td>All</td>
</tr>
<tr>
<td>15</td>
<td>AS-15</td>
<td>Accounting for retirement benefits in the Financial statements of employees</td>
<td>01/04/1995</td>
<td>All</td>
</tr>
<tr>
<td>16</td>
<td>AS-16</td>
<td>Borrowing costs</td>
<td>01/04/2000</td>
<td>All</td>
</tr>
<tr>
<td>17</td>
<td>AS-17</td>
<td>Segment reporting</td>
<td>01/04/2001</td>
<td>Level I</td>
</tr>
<tr>
<td>No.</td>
<td>AS-XX</td>
<td>Description</td>
<td>Date</td>
<td>Level/Scope</td>
</tr>
<tr>
<td>-----</td>
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<td>------------------------------------------------------------------------------</td>
<td>------------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>18</td>
<td>AS-18</td>
<td>Related party disclosure</td>
<td>01/04/2001</td>
<td>Level I</td>
</tr>
<tr>
<td>19</td>
<td>AS-19</td>
<td>Leases</td>
<td>01/04/2001</td>
<td>All</td>
</tr>
<tr>
<td>20</td>
<td>AS-20</td>
<td>Earning per share</td>
<td>01/04/2001</td>
<td>Level I</td>
</tr>
<tr>
<td>21</td>
<td>AS-21</td>
<td>Consolidated financial statements</td>
<td>01/04/2001</td>
<td>(Refer Note)</td>
</tr>
<tr>
<td>22</td>
<td>AS-22</td>
<td>Accounting for taxes on income</td>
<td>01/04/2001</td>
<td>For Listed Companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accounting for taxes on income</td>
<td>01/04/2002</td>
<td>Companies other than listed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accounting for taxes on income</td>
<td>01/04/2006</td>
<td>All</td>
</tr>
<tr>
<td>23</td>
<td>AS-23</td>
<td>Accounting for investments in associates in consolidated financial statements</td>
<td>01/04/2002</td>
<td>(Refer Note)</td>
</tr>
<tr>
<td>24</td>
<td>AS-24</td>
<td>Discounting operations</td>
<td>01/04/2004</td>
<td>Level I</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Discounting operations</td>
<td>01/04/2005</td>
<td>All</td>
</tr>
<tr>
<td>25</td>
<td>AS-25</td>
<td>Interim financial reporting</td>
<td>01/04/2002</td>
<td>Level I</td>
</tr>
<tr>
<td>26</td>
<td>AS-26</td>
<td>Intangible assets</td>
<td>01/04/2003</td>
<td>All</td>
</tr>
<tr>
<td>27</td>
<td>AS-27</td>
<td>Financial reporting of interests in joint venture</td>
<td>01/04/2002</td>
<td>(Refer Note)</td>
</tr>
</tbody>
</table>
### Table: Accounting Standards

<table>
<thead>
<tr>
<th>No.</th>
<th>Standard Ref.</th>
<th>Description</th>
<th>Date</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>28</td>
<td>AS-28</td>
<td>Impairment of assets</td>
<td>01/04/2004</td>
<td>Level I</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Impairment of assets</td>
<td>01/04/2006</td>
<td>Level II</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Impairment of assets</td>
<td>01/04/2008</td>
<td>Level III</td>
</tr>
<tr>
<td>29</td>
<td>AS-29</td>
<td>Provisions, contingent liabilities and contingent assets</td>
<td>01/04/2004</td>
<td>All</td>
</tr>
<tr>
<td>30</td>
<td>AS-30</td>
<td>Financial Instrument</td>
<td>01/04/2009</td>
<td>Commercial, industrial and business Entities</td>
</tr>
<tr>
<td>31</td>
<td>AS-31</td>
<td>Financial Instrument: Presentation</td>
<td>01/04/2009</td>
<td>Commercial, industrial and business Entities</td>
</tr>
<tr>
<td>32</td>
<td>AS-32</td>
<td>Financial Instruments, Disclosures And Limited Revision To Accounting Standards</td>
<td>01/04/2009</td>
<td>Commercial, industrial and business Entities</td>
</tr>
</tbody>
</table>

### Notes

1. AS-21, AS-23, AS-27 (relating to consolidated financial statements) are required to be complied with by an enterprise, if the enterprise pursuant to the requirements of a statute regulator or voluntarily, prepares and presents consolidated financial statements.

2. (AS-3, AS-17, AS-18, AS-20, AS-2 and AS-24) Accounting Standards are mandatory for enterprises whose securities are listed on a recognized state exchange in India or in the process of listing and all other commercial, industrial and business reporting enterprises, whose turnover exceeds `50 crores for the accounting period.
Compliance with Accounting Standards

Role of ICAI: Accounting Standards will be mandatory from the date specified in the Accounting Standards. It is the duty of the auditors (members of ICAI) to check whether provisions envisaged in the Accounting Standards are complied with or not complied. In case any deviation is noted, such deviations must be reported in the audit reports to make alert the users of financial statements.

Role of Companies Act

(1) Sec 211 of Companies Act 1956 provides that every profit and loss account and balance sheet shall comply with the Accounting Standards.

(2) Sec 211 (3B), non-compliance of Accounting Standards should be expressly stated in the disclosure to be attached to the balance sheet. Such disclosure provides details relating to
   (a) deviation from the Accounting Standards
   (b) the reason for such deviation and
   (c) the net financial effect, if any, due to such deviation

Implementation of Accounting Standards

The preparation of the financial statements with adequate disclosures in tune with Accounting Standards is to be done by the management of enterprise. It is the responsibility of the Board of Directors. According to the new clause 2AA, which was added to Sec 217 by the Companies Act (Amendment) in the year 2000, the report of the board should also include a director’s responsibility statement that must include therein:
(i) that in preparation of the annual accounts, the applicable Accounting Standards has been followed along with proper explanation relating to material departures;

(ii) that the directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affair of a company at the end of financial year and of the profit or loss of the company for that period;

(iii) that the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

(iv) That the directors have prepared the annual accounts on a going concern basis.

The entire responsibility rests with the directors of the company. The auditor’s responsibility is confined to form his opinion and to report on such financial statements. Auditors should ensure that the Accounting Standards are implemented in the preparation of financial statements. It is auditor’s responsibility to disclose the deviations from prescribed standards and he has to inform this fact in his report to the users.

The strict adherence to Accounting Standards will definitely improve the quality of presentation of financial statements. It will also lead to provision of necessary information for a proper understanding of the financial statements. The importance can be understood from the Preface
to the Statement of Accounting Standard (Revised 2004) issued by the ICAI council. It highlights some guidelines on “General Purpose Financial Statements,” which may be very much useful for the learners of Financial Accounting.

**Standard Setting Process of ICAI**

The Institute of Chartered Accountant of India, fully recognizing the need of harmonizing the diverse policies established ‘Accounting Standards Boards’ on 21st April 1977.

The constitution of ASB gives adequate representation to all interested parties and, at present, it consists of members of the council and representatives of industry, banks, and company law board, Central Board of Direct Taxes and the Comptroller and Auditor General of India, Securities and Exchange Board of India etc.

**Function of ASB:** The main function of ASB is to formulate accounting standards. While formulating accounting standards, ASB takes into consideration the applicable laws, customs, usage and business environment. The Institute is the member of International Accounting Standards Committee (IASC) and has agreed to support the objectives of IASC. While formulating standards, it gives due consideration to the international Accounting Standards (IAS) issued by IASC and tries to integrate them, to the extent possible, in the light of conditions and practices prevailing in India. It also reviews the accounting Standards at periodical intervals.
The following points need to be kept in mind while drafting accounting standards, namely:

1. The accounting standards issued are in conformity with the provisions of the applicable laws, customs, usages and business environment of our country;

2. The accounting standards are in the nature of laws but not laws. Though every possible care is taken while drafting standards that they are in conformity with the applicable laws, still the conflict between the law and an accounting standard might arise due to amendments in the law subsequent to the issuance of the accounting standard. As clarified in the ‘Preface to the Statements of Accounting Standard’, accounting standard cannot and do not override the statute and in all such cases of conflicts, the provisions of the law will prevail and the financial statements should be prepared in conformity with the relevant laws. Obviously, to that extent, the accounting standards shall not be applicable. However, “the institute will determine the extent of disclosure to be made in financial statements and the related auditor’s reports. Such disclosure may be by way of appropriate notes explaining the treatment of particular items. Such explanatory notes will be only in the nature of clarification and therefore, need not be treated as adverse comments on the related financial statements;”

3. The accounting standards are intended to apply only to the items, which are material and become applicable from the date as specified by the institute. They are applicable to all classes of
enterprise unless otherwise stated. No standard is applicable retroactively, unless otherwise stated;

4. The accounting standards are to address the basic matters, to the extent possible. The idea is to confine them to essentials only and not to make them complex.

**Procedure for Formulating Accounting Standards:** The procedure for formulating the Accounting Standards’ involves the following steps:

(a) Firstly, the ASB determines the board areas in which accounting standards need to be formulated;

(b) Secondly, the ASB takes the assistance of the various study groups to formulate standards. The preliminary drafts of the standards are prepared by the Study Groups, which take up the specific subjects assigned to them. The draft prepared by a Study Group is considered by ASB and sent to various outside bodies like FICCI, ASSOCHAM, SCOPE, CLB, C & AG, ICWAI and ICSI. CBDT etc. and the representatives of these bodies are also invited at a meeting of ASB for discussion.

(c) Thirdly, after taking into consideration their views, the draft of the standard is issued as exposure draft for soliciting comments from members of the institute and public at large. The draft is issued to a large number of institutions and is published in the journal of the institute. The exposure draft includes the following basic points:

1. A statement of concepts and fundamental accounting principles relating to the standard;
2. Definitions of the terms used in the standard;
3. The manner in which the accounting principle have been applied for formulating the standard;
4. The presentation and disclosure requirements in complying with the standard;
5. Class of enterprises to which the standard will apply;
6. Date from which the standard will be effective.

(d) Fourthly, the comments on the exposure draft are then considered by the ASB and a final draft is prepared and submitted to the council of the institute;
(e) Lastly, the council of the institute considers the final draft of the proposed standard, and if found necessary, modifies the same in consultation with ASB. The accounting standard on the relevant subject is then issued under the authority of the council.

2.3.7 Meetings and Proceedings of the Council

Meetings constitute the integral and important portion in the companies Act, 1956. It gives an opportunity for the shareholders to know about the state of affairs of the company and also deliberate on various issues. There are different kinds of meetings that have to be called upon by the company and statutory requirements have to be compiled within the calling, convening and conduct of the meetings.

Since a company is an artificial legal entity, distinct from that of its members, the affairs of the company is practically done by the board of the directors. The board of directors, in carrying out the day-to-day affairs of the company has to perform the role within their limited powers and the powers which are granted to them. Certain powers can be exercised by
the board of their own and with the consent of the company at the general meeting. The shareholders as owners of the company ratify the actions of the board at the meetings of the company. The meetings of the shareholders serve as the focal point for the shareholders to converge and give their decisions on the actions taken by the directors.

Meetings held under the companies Act, 1956 may be classified as follows:

(a) Statutory meetings.
(b) Annual general meeting.
(c) Extraordinary general meeting.
(d) Class meetings.

1. Meetings of the shareholders or members:
2. Meetings of debenture holders.
3. Meetings of creditors and contributories in winding up.
4. Meetings of creditors otherwise than in winding up.
5. Meetings of the directors:
   (a) Board meetings.
   (b) Committee meetings

There is a fix procedure for the meetings and proceedings are circulated in the form of minutes to all the members.\(^7\)

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\(^7\) The companies act, 1956, ICAI, unit 4, meetings and proceedings, pp6. 221.
2.4 THE AUTHORITY ATTACHED WITH ACCOUNTING STANDARDS

Accounting standard board is the main authority attached with accounting standard. The institute of Chartered Accountants of India, recognizing the need to harmonize the diverse accounting policies and practices, constituted at Accounting Standard Board (ASB).

2.5 IMPORTANCE OF ACCOUNTING STANDARDS

1. Basics

Accounting standards are generally accepted principles for recording and reporting business transactions. In most cases, both large corporations and small businesses adhere to the same set of accounting standards, and have their recordkeeping practices certified by an independent auditor in order to provide security to their investors and creditors. Practicing good accounting serves a business by providing them access to investor capital, facilitating reasonable assessments of performance and preventing costs associated with legal actions.
2. Protecting Investors

Accounting standards protect the interests of investors and ensure that the financial documents investors review are accurate and effective. Investors usually want to know that the money they put into a company will result in a return on investment and build shareholder value. Using generally accepted accounting principles, companies can provide confidence to a large number of investors -- both locally and globally -- that the business will responsibly manage and protect their investments. This credibility can mean a greater investor interest in the company.

3. Regulatory Compliance

In many cases, businesses must adhere to accounting standards set by government regulators. These standards protect both consumers and investors from the risk of fraud by business. They also create transparency in transactions, which improves the efficiency of markets. National regulators also use accounting standards to help provide their nations' enterprises with access to foreign markets and capital. Businesses work to ensure compliance with regulatory accounting standards to avoid the significant legal costs or criminal penalties associated with accounting inconsistencies.

4. Assessing Business Performance

Using consistent accounting standards is one way to provide business managers with the ability to reasonably and accurately compare their
performance. Because many different companies use the same accounting standards, the businesses that opt to do so are able to contrast their growth with that of competitors. This helps business managers and investors identify strengths and weaknesses. Additionally, accounting standards ensure that financial statements can be reasonably compared over time. Comparing current and past performances, managers can assess their businesses' growth and evaluate the success of their strategies.\footnote{7 The Importance of Accounting Standards | eHow \cite{7} \url{http://www.ehow.com/info_8559458_importance-accounting-standards.html#ixzz2VtlkDCWv}}

5. \textbf{To Provide Information}

The main objective of Accounting Standards is to provide information to the users. It sets the standards on which accounts have to be prepared.

6. \textbf{To Harmonize Different Accounting Processes}

Accounting Standards are evolved to bridge the gap between various accounting procedures to harmonize the different accounting processes.

7. \textbf{To Enhance the Contents}

Accounting Standards enhance the credibility and comparability of the financial statements.