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INTRODUCTION

The present business environment is heralding a revolution in the need for and the way in which accounting data is utilized in economic financial and social spheres of any economy. This revolution is basically propelled by widening cross-border financial interdependence by the economies of the world resulting in the inevitable need for 'information explosion,' which is basically hastened by involving everyone in information technology revolution spurred by decreasing cost and expertise necessary to produce information instantaneously across countries to individual and institutional investors. The result has been that the users have developed a craze for information provided formally or informally. This demand for information has been rightly presented by Albrecht and Sack [2000:6] in these words: "We are moving into an age of instant gratification - that seems to be true whether it's children clients, or whatever - they want instant gratification and you have to provide the answers now! We not only have to provide the answers, but the right answers. As companies change they can't get it from us [accounts]. They will get it somewhere else." Hence Beaver [1998] analyzed the issue as 'an accounting revolution' and Elliott [1998:7] pleaded for the possible 'redefinition of accounting' in the background of the undercurrents in corporate financial reporting.

Corporate financial reporting is a communication of relevant qualitative and quantitative information for decision making by users of such information through financial statements. Management is entrusted with the legal responsibility of preparing and communication such relevant information to the users. However, the management does not independently carry out this task, but it is the joint effort of accounting researchers, management, auditors and the government. The accounting researchers have attempted to develop a theory of financial reporting to support the accounting practices by the management or to develop a theory of financial reporting to be followed by the management, the former effort being emphasized by academic researchers. The auditors provide the authenticity of financial statements through their
audit opinions. The government regulates financial reporting either through enacting reporting regulations or through laying down general guidelines of financial reporting. These efforts by different institutions go in the name of conceptual framework.

The leader in developing this conceptual framework has been the accounting profession, which has rationalized and institutionalized the conceptual framework under 'accounting standards.' These accounting standards are issued at the international level by the IASB and at the national level by the respective accounting standards boards (ASBs). The basic objective of issuing a standard on any accounting issue to be followed by the drafters of financial statements is to reduce the scope of accounting policy choices and to achieve uniformity in financial reporting. In this background, the developments in financial reporting are presented below under conceptual framework, corporate disclosure, financial reporting and regulation and accounting standards.

CONCEPTUAL FRAMEWORK

There has been still an unresolved issue of a conceptual framework for financial reporting. Historically, this conceptual framework was conceived to be the accounting practices per se and then it was visualized to include 'recommendation' of accounting practices by the profession and then it was meant to include 'principles'; and later 'generally accepted accounting principles' [GAAP]. In recent years, this conceptual framework is debated under accounting standards across the world. Higson [2003: 62] presents the issue of conceptual framework in these words: "A conceptual framework could be seen as an attempt to operationalize the accounting theory - this could be done by either individuals or standard setters. Those who thought about accounting have probably formed some sort of conceptual framework in their own mind." This status continues even to this day. Hence Anthony [1983] remarks "Those who comment on proposed accounting standards do so in terms of their personal conceptual frameworks, and the members of the financial accounting standards board vote in accordance with their personal conceptual frameworks." Yet, while there was support for the development of such a framework, no one framework gained overall acceptance. Worldwide
political, legal and cultural differences may all have contributed to this [Davidson et. al.: 1996]. Further, the conceptual framework seems to be shifting from technical dimensions to socio-cultural dimensions. Hence Hines [1991] observes: "The meaning and significance of conceptual framework [CF] projects is not so much functional and technical, but rather social and cultural."

**MEANING AND EVOLUTION**

Chambers [1996] stated that Storey [1964] first used the term ‘conceptual framework’ in an accounting context: "Principles distilled from practice are capable of leading so far and no further. A point is reached at which principles of this type become meaningless unless and until a conceptual framework is developed which gives meaning to the procedures followed, or points out that the procedures followed do not make sense and should be replaced by others which do ... a conceptual framework provides at once both the reasoning underlying procedures and a standard by which procedures are judged."

Davies et al. [1999] defined the ‘conceptual framework’ as follows: "In general terms, a conceptual framework is a statement of generally accepted theoretical principles which form the frame of reference for a particular field of enquiry. In terms of financial reporting, these theoretical principles provide the basis for both the development of new reporting practices and the evaluation of existing ones."

The FASB [1976a] described a conceptual framework as ‘a coherent system of interrelated objectives and fundamentals that can lead to consistent standards and that prescribes the nature, function and limits of financial accounting and financial statements.’ The importance of such a framework is such that ‘one cannot make a rational choice of accounting procedures without some framework of principles’ [Macve: 1981]. However, the attempts to develop the conceptual framework have been cogently presented by Vatter [1947] in these words: "In fact, it is surprising that accountants have managed for so long without such a framework: Every science, methodology or other body of knowledge is oriented to some conceptual structure—a pattern of ideas brought together to form a consistent whole or a frame of reference to
which is related the operational content of that field. Without some integrating structure, procedures are but senseless rituals without reason or substance; progress is but a fortunate combination of circumstance; research is but fumbling in the dark; and the dissemination of knowledge is a cumbersome process, if indeed there is any 'knowledge' to convey."

The first attempts at constructing conceptual frameworks tended to be by individuals. By the 1970s and 1980s, the standard-setters were the prominent producers of them. There have been a number of reviews of these developments [Gore, 1991, 1992; Mathews and Perera, 1996; Riahi-Belkaoui, 2000; Zeff, 1999]. Gore [1994], examined the practical usefulness of conceptual frameworks, while Power [1993] considered the idea of a conceptual framework. Figure 2.1 presents an overview of the developments in conceptual framework.

**FIGURE 2.1**

DEVELOPMENTS IN CONCEPTUAL FRAMEWORK

<table>
<thead>
<tr>
<th>Year</th>
<th>Author/Institution</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1923</td>
<td>Sprague [1923]</td>
<td>Philosophy of Accounts.</td>
</tr>
<tr>
<td>1929</td>
<td>Canning [1929]</td>
<td>The Economics of Accountancy.</td>
</tr>
<tr>
<td>1936</td>
<td>AAA [1936]</td>
<td>A Tentative Statement of Accounting Principles Affecting Corporate Reports.</td>
</tr>
<tr>
<td>1940</td>
<td>Paton and Littleton [1940]</td>
<td>An Introduction to Corporate Accounting Standards.</td>
</tr>
<tr>
<td>1965</td>
<td>Grady [1965]</td>
<td>Inventory of Generally Accepted Accounting Principles for Business Enterprises.</td>
</tr>
</tbody>
</table>

Paton [1922] Zeff [1999], and Sprague [1923], Anthony [1983] may be considered to have made the earliest attempts at producing 'unofficial' conceptual frameworks. Canning [1929] 'was the first to develop and present
a conceptual framework for asset valuation and measurement founded explicitly on future expectations' [Zeff, 1999]. After the establishment of the SEC and its concern about accounting principles, the first institutional attempt at a conceptual framework was the ‘tentative statement’ produced by the American Accounting Association in [1936:187]. In 1936, Sanders et. al., produced a monograph which was in large measure, a defense of accepted practice’ [Zeff:1999]. Zeff considered the Paton and Littleton [1940] framework to be the most influential of the early conceptual framework attempts: ‘it was an elegant explication and rationalization of the historical cost accounting model that was already widely accepted in the US’ [Zeff:1999, 90].

It was not until the 1960s that major consideration was given to further conceptual framework projects. Zeff [1972:93] reported that there was almost no reaction to Moonit’s [1961] study in these words: “It was not clear from Moonitz’s study whether he favored historical cost accounting or a version of current value accounting; thus many readers found his study to be too abstract and general to engage their interest and critical thought.” However, the following year there was an adverse reaction to the Sprouse and Moonitz [1962] document. This report had recommended that ‘the use of current values should be expanded’ [Zeff, 1999:94], in 1965. Meanwhile, Grady [1965] compiled an ‘inventory’ of generally accepted accounting principles to pull together the objectives, concepts and principles contained in the then current professional pronouncements.

The turning point in conceptual framework development was the publication of ‘A Statement of Basic Accounting Theory’ by the Academic American Accounting Association [AAA] popularly abbreviated as ASOBAT [1966:1], which defined accounting as “the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by the users of the information”.

With such a change in emphasis, a change in the characteristics of accounting data was also required. The AAA [1966:7] recommended the following four basic standards for accounting data:

Relevance is the primary standard and requires that the information must bear upon or be usefully associated with actions it is designed to
facilitate or results desired to be produced. Known or assumed informational needs of potential users are of paramount importance in applying this standard.

Verifiability requires that essentially similar measures or conclusions would be reached if two or more qualified persons examined the same data. It is important because persons who have limited access to the data commonly use accounting information. The less the proximity to the data, the greater the desirable degree of verifiability becomes. Verifiability is also important because users of accounting information sometimes have opposing interests.

Freedom from bias means that facts have been impartially determined and reported. It also means that techniques used in developing data should be free of in-built bias. Bias information may be quite useful and tolerable internally but it is rarely acceptable for external reporting.

Quantificability relates to the assignment of numbers to the information being reported. Money is the most common but not the only quantitative measure used by accountants. When accountants present non-quantitative information in compliance with the other standards they should not imply its measurability. Conversely, when quantitative information is reported without a caveat the accountant must assume responsibility for its measurement.

**IASB FRAMEWORK**

With all these controversies, the usefulness of conceptual framework is not ruled out. In this direction, the IASB framework seems to have become the much acclaimed and accepted conceptual framework for accounting practitioners today. The salient features of this framework [issued in 1989 and adopted since in 2001 by IASB] have been presented below [Greuning:2005, 2-10] (i) The Framework; (ii) The Objectives; (iii) The Assumptions; (iv) Qualitative Characteristics; (v) The Constraints; (vi) Fair Presentation; (vii) Elements of Financial Statements; and (viii) Measurement Bases.
(i) The Framework:

The framework introduces concepts underlying the preparation and presentation of financial statements; guides standards setters in developing accounting standards; and assists prepares, auditors, and users in interpreting the International Accounting Standards (IAS) and in dealing with issues not yet covered by the IAS.

The framework deals with: objectives of financial statements; qualitative characteristics of financial statements; elements of financial statements; recognition of the elements of financial statements; measurement of the elements of financial statements; and concepts of capital and capital maintenance.

(ii) The Objectives:

The objectives of financial reporting are to provide information about the financial position (balance sheet), performance (income statements), and changes in financial position (cash flow statement) of an entity. This information should be useful to a wide range of users for the purpose of making economic decisions.

The relevant evidence for this observation comes from the academic and professional pronouncements. The AAA (1936) observed: "The purpose of the statement is the expression, in financial terms, of the utilization of the economic resources of the enterprise and resultant changes in the position of interests of creditors and investors. Accounting is thus not essentially a process of valuation but the allocation of historical costs and revenues to the current and succeeding periods." This expression of a stewardship objective of financial reporting has been echoed in various pronouncements of ICAEW (1970): ‘...the purpose for which the annual accounts are normally prepared is not to enable individual shareholders to take investment decisions’, and ‘…….the results shown by accountants on the basis of historical cost are not a measure of increase or decrease in wealth’

The paradigm shift in the objective of decision usefulness of financial reporting was evidenced when Moonitz [1961] defined the objective of financial reporting as the provision of data to be used as a basis for choosing between available economic alternatives and for checking and evaluating
progress and results. He further argued that any one who adopted a criterion of usefulness for reporting must answer two important questions: Useful to whom? And for what purpose? Kenley and Staubus [1972] gave fillip to this approach and AICPA [1973] formally accentuated this process.

The AAA [1966] stressed that the information must be appropriate to its expected use by the potential user by defining accounting as a process of provisioning of economic information for users.

The AICPA [1970], through Accounting Principles Board (APB), referred to financial statements giving information, which would be useful in estimating earnings potential of a company.

The study by Kenley and Staubus [1972], commissioned by Accounting Research Foundation of Australian Society and Institute (ARFASI) evidenced the objective of accounting to be: "To provide financial information about the economic affairs of an entity for use in making decisions."

Further, the AICPA [1973] observed: "The basic objective of financial statements is to provide information useful for making economic decisions." This basic and general objective of financial reporting was further specified thus: 'An objective of financial statements is to provide information useful to investors and creditors for predicting, comparing and evaluating potential cash flows to them in terms of amount, timing and related uncertainty.

The big auditing firms made similar observations also. Arthur Andersen and Company [1972] posited... "The overall purpose of financial statements is to communicate information concerning the nature and value of the economic resources of a business enterprise, the interest of creditors, and the equity of owners in those economic resources. Similarly, Price Waterhouse and Company [1971] emphasized investment decision usefulness arguing that general purpose financial statements would meet this objective of accounting in these words: "General-purpose financial statements are designed to report to investors on the use of funds they have invested in their enterprise in such a way to facilitate their investment decisions of the future."

The literature thus provides evidence of a growing consensus that the usefulness of accounting statements should be judged according to the relevance of the information provided for decisions. It is not argued that stewardship is unimportant - the securing of proper stewardship is itself
associated with significant economic decisions. It is coming to be acknowledged, however, that considerable importance should be attached to the provision of information to assist shareholders' investment decisions; and that is seen to involve the prediction of future cash flows. These views are not confined to writers of reports for professional organizations. Various academic papers have stressed the importance of the decision-making objective, either implicitly, in testing accounting practices for predictive value, or explicitly. Pankoff and Virgil argue that although 'financial accounting reports may have an historical perspective, the value of those reports cannot be measured solely by the accuracy with which they reflect the past. It seems safe to say that most users, investors, and creditors, for example, are not interested at all in the past, per se, but only to the extent that the past can be used to reflect the future. In other words, firms' past records are useful to the extent that they help users to make investment decisions about an uncertain future.'

The acceptance of forward-looking objectives has not been unanimous though recent dissent seems to be much smaller in volume. Bevis [1965: 9] details of book to be given argues '..... the fact that prospective investors may use financial information contained in the report to assist them in making projections concerning investment decisions....... does not believe the report's essential nature and purpose as an historical account of what has taken place.'

The status of objectives vis-à-vis financial reporting may be summed up as a paradigm shift from stewardship accounting to decision-making usefulness tried to be achieved through enhanced disclosure by retaining the basic structure of the financial reporting model of historical allocations devoid of valuation reporting model leading to decision usefulness.

(iii) The Assumptions:

The two main assumptions are accrual basis and going concern

Accrual Basis. Effects of transactions and other events are recognized when they accrue (not when the cash flows). These effects are recorded and reported in the financial statements of the periods to which they relate.

Going Concern. It is assumed that the entity will continue to operate for the foreseeable future.
(iv) Qualitative Characteristics:

Qualitative characteristics are attributes that make the information provided in financial statements useful to users:

*Relevance.* Relevant information influences the economic decisions of users, helping them to evaluate past, present, and future events or to confirm or correct their past evaluations. The relevance of information is affected by its nature and materiality.

*Reliability.* Reliable information is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. The following factors contribute to reliability: faithful representation; substance over form; neutrality; prudence; and completeness.

*Comparability.* Information should be presented in a consistent manner over time and in a consistent manner between entities to enable user to make significant comparisons.

*Understandability.* Information should be readily understandable by users who have a basic knowledge of business, economic activities, and accounting, and who have a willingness to study the information with reasonable diligence.

(v) The Constraints:

The following are constraints on providing relevant and reliable information:

*Timeliness.* Undue delay in reporting could result in loss of relevance but improve reliability.

*Benefit Versus Cost.* Benefits derived from information should exceed the cost of providing it.

*Balancing of Qualitative Characteristics.* To meet the objectives of financial statements and make them adequate for a particular environment, providers of information must achieve an appropriate balancing among qualitative characteristics.
(vi) Fair Presentation:

The application of the principal qualitative characteristics and appropriate accounting standards normally results in financial statements that provide fair presentation.

Fair presentation is achieved through the provision of useful information (full disclosure) in the financial statements, whereby transparency is secured. If one assumes that fair presentation is equivalent to transparency, a secondary objective of financial statements can be defined: to secure transparency through full disclosure and provide a fair presentation of useful information for decision-making purposes.

(viii) Elements of Financial Statements:

The following elements of financial statements are directly related to the measurement of the financial position:

- **Assets.** Resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- **Liability.** Present obligations of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of economic benefits.
- **Equity.** Assets less liabilities (commonly known as shareholders' funds)

Further, income and expenses forming part of the elements of financial statements are directly related to the measurement of performance:

- **Income.** Increase in economic benefits in the form of inflows or enhancements of assets, or decreases of liabilities that result in an increase in equity (other than increases resulting from contributions by owners). Income embraces revenue and gains.
- **Expenses.** Decreases in economic benefits in the form of outflows or depletion of assets, or in currencies of liabilities that result in decreases in equity (other than decreases because of distributions to owners).

A financial statement element (assets, liabilities, equity, income and expenses) should be recognized in the financial statements if: (a) It is probable that any future economic benefit associated with the item will flow to or from the entity; and (b) The item has a cost or value that can be measured with reliability.
(viii) Measurement Bases:

The following bases are used to different degrees and in varying combinations to measure elements of financial statements:

- Historical cost
- Current cost
- Realizable (settlement) value
- Present value

CORPORATE DISCLOSURE

The thrust of conceptual framework is on disclosure, which may be defined as a process of disseminating significant information to relevant users through mainly annual reports, and such other media. American Accounting Association [1977] defined disclosure as ".... the movement of information from the private domain to public domain." The importance of such information moving from private domain to public domain has behavioural implications for a wide range of users as posited by Lee [1976:7]. There is an obvious need for reliable information, which they can use to acquire an essential knowledge or the way in which the business enterprise are behaving in relation to the public interest. By perceiving enterprise behaviors through communicated information, interested parties can use this knowledge to amend or adopt their own behaviour vis-à-vis the enterprise concern.

In fact, financial reporting is interchangeably used with 'financial accounting disclosure' [Pradhan: 1998, 21]. It is widely held that expanded disclosure enhances the usefulness level of financial reporting in decision-making. As a result, the disclosure level has been increasing tremendously worldwide. These developments in expanded disclosure have been cogently presented by Aston et. al., [1987] in a matrix of various current features as well as future possibilities of disclosure and these trends have been presented in Figure 2.2.
### FIGURE 2.2
CORPORATE DISCLOSURE

<table>
<thead>
<tr>
<th>Disclosure Characteristics</th>
<th>Current Situation</th>
<th>Current Trends</th>
<th>Future Possibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Users</td>
<td>Shareholders, creditors, managers and general public</td>
<td>Interest groups of shareholders, creditors, managers and general public</td>
<td>Greatly expanded, general public groups</td>
</tr>
<tr>
<td>2. Uses</td>
<td>To evaluate economic progress, enable tax assessment and aid investment decisions</td>
<td>To plan company activities, motivate control activities, and improve investment decisions</td>
<td>To provide the inter-company coordination, meet specific users information needs, and develop public confidence in firms, activities</td>
</tr>
<tr>
<td>3. Types of information</td>
<td>Transaction-based monetary valuation of internal activities of the firm</td>
<td>Accruals and motivational valuations of internal activities</td>
<td>Internal and external data to reveal both internal activities and the environmental setting of the internal activities of a socio-economic nature.</td>
</tr>
<tr>
<td>4. Measurement Techniques</td>
<td>Arithmatic and the book-keeping system</td>
<td>Expanding into computer based storage, probability measures, and limited mathematical analysis</td>
<td>Further expansion into the total management science area</td>
</tr>
<tr>
<td>5. Quality of Disclosures</td>
<td>Excellent in terms of past needs, although the reliability of different items varies</td>
<td>Attempts to narrow the use of alternative principles and define the materiality concepts</td>
<td>Improved relevance for specific decisions without reducing reliability of accounting disclosures</td>
</tr>
<tr>
<td>6. Disclosure Devices</td>
<td>Numerical reports such as balance sheet, income statement, and various managerial structure reports</td>
<td>Charts information rooms, and computer printout as supplements to structured numerical reports</td>
<td>Multimedia disclosure based on the psychology of human communication</td>
</tr>
</tbody>
</table>

The concept of disclosure has been analyzed under (i) Types of Disclosure; (ii) Tests of Adequate Disclosure; and (iii) Dimensions of Adequate Disclosure.

(i) Types of Disclosure:

Hendrickson [1977:723] identifies three types of disclosure, viz., fair disclosure, full disclosure and adequate disclosure. Fair disclosure implies an ethical objective of providing equal treatment for all potential readers of financial statements. Full disclosure emphasizes the presentation of all relevant information. Adequate disclosure implies enough disclosure to avoid the misleading of the user. However, it is argued that there is no difference among these concepts. In recent times there is a general acceptance to use adequate disclosure and fair term is also implied to fair disclosure and full disclosure.

(ii) Tests of Adequate Disclosure:

Lai [1985:38] has cogently presented the problem of testing adequate disclosure in these words: “Adequacy of disclosure cannot be tested accurately and precisely since no definite test to measure it exists in financial reporting. But when information is reported outside the business enterprise adequacy of disclosure can be tested. The basis of the test is the extent to which the items of information are helpful to users, for whom disclosure is made, in making economic decisions. If users vary in number or quality, more or less information greater or lesser the rate would be adequate.”

(iii) Dimensions of Adequate Disclosure:

The scope of adequate disclosure is examined by theorists, who focus on (a) User; (b) Purpose; (c) Quantum; (d) Mode; and (e) Timing and a discussion of these is presented below.

(a) User:

Adequate disclosure is dependent more upon user needs and user groups because these user groups may differ in their information needs. In support of this generalization, Buzby [1974], observes that the identification of users helps in defining user group characteristics, which impinge on the
specific type of information to be presented as well as the method of presentation. The identification of user groups also helps in the development of financial reporting system itself as argued by the Trueblood Committee [1973].

To serve user needs, the accounting process should consist of an inter-related and compatible system of objectives, standards or principles, and practices or procedures. Objectives should identify the goals and purposes of accounting. Standards should follow logically from objectives, and should provide guidelines for the formulation of accounting practices compatible with the desired goals. All three levels of the system should be linked rationally to the needs of users. Otherwise, the development of objectives becomes a sterile activity, which cannot be justified.

The discussion of users has resulted in the identification of many user groups. First and the foremost is on the user groups being classified into ‘sophisticated users’ and ‘unsophisticated users,’ which include both individual and institutions. However, the distinction between these two user groups is highly ambiguous. Normally, individual users are assumed to be unsophisticated users and institutional users are identified to be sophisticated users based on the criterion of depth in the knowledge of interpretation of financial reporting data. Kam [1986:44] criticizes this basis of user classification. Another classification, based on user need differences, has been the financial analysts’ group and lenders’ group, which have substantial differences in perceptional differences on different accounting items as evidenced in Chandra [1974]

Another classification base for investors is the size of investment, which results in small investors and large investors. Normally, small investors suffer from lack of information as against large investors. According to Carsberg and Soapens [1974:170], the small investors are “characterized as ignorant of accounting, dependent upon financial advisers, incapable of getting information elsewhere and unlikely to switch investments because, of apathy or loyalty.” However, large investors have access to information, ability to interpret the data without much difficulty.

The other dimensions of user groups are with regard to the level of seriousness of readers of financial statements and reasonable level of
understanding of financial information. Regarding the level of seriousness, Miller and Scot [1980:8] observe: “It is impossible to cater for careless users of Financial Statements; they could misuse or ignore any information, aggregated or disaggregated that is presented.” It is true that there is no universally accepted classification of user groups and hence the user classification is always guided by the prevalent socio-economic and cultural conditions of a nation. However, the financial statements are prepared and presented to those who have reasonable diligence, which has been very aptly presented by the FASB [1978] in these words: “The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.”

(b) Purpose:

The user identification is basically linked to the purpose of adequate disclosure and the purpose influences the quality of disclosure also. Chambers [1966:162] depicts the confusion in the identification of the purpose of information to be disclosed in annual reports. Traditionally, the information has been used by users in making investment decision and exercise of investor control over management [AAA:1977]. From the viewpoint of management, the primary purpose of financial reporting is to measure the enterprise performance and this task culminates in accountability by management or stewardship. According to Rise [1973], almost 75.00 per cent of the companies considered their overall purpose to be accountability for performance or stewardship. The study by AICPA [1972] presents the following significant purposes of disclosure: (1) To provide information useful to investors and creditors for predicting, comparing and evaluating potential cash flows to them in terms of amount, timing and related uncertainty; (2) To provide information to users for predicting, comparing and evaluating enterprises earning power; (3) To supply information useful in judging management’s ability to utilize enterprises resources effectively in achieving the primary enterprise goal; (4) To provide information useful for the predictive process; and (5) To report on those activities of the enterprise affecting society, which can be determined and described or measured and which are important to the role of enterprise in its social environment.
To conclude, investors become the dominant user group and hence the purpose of information disclosure is to facilitate investment decision. However, the purposes of other groups are not less important. Hence there is a need for balancing the purposes of various interested user groups in the general-purpose financial statements. In this direction the observation by Bedford [1973:4] is still relevant: “... the decision as to proper disclosure to specific groups may well have to be based on a balancing of the different interests of different groups. Disclosure helpful to one group but harmful to another would have to be balanced and judged according to some undefined standards.”

(c) Quantum:

Another dimension of adequate disclosure relates to the quantum of information load, which is determined by information needs and the sophistication of the user group. Basically, the quantum of information group depends upon the degree of uncertainty under which decision makers are operating [Bedford: 1973,350]. Larger the uncertainty of a decision phenomenon greater is the amount of information provision. However, the cardinal principle of quantum of disclosure is not to overload with information leading to make users misleading. Hence AICPA [1962:7] states that accounting reports disclose that which is necessary not to make them misleading. In this regard, Lal [1985:46] observes: “Financial statements prepared on the basis of generally accepted accounting principles would be considered to be not misleading and would show fair presentation of financial position and results of operations of business enterprises.”

The issue of quantum relates to what should be included in financial reporting. There is extant literature on what should be included in financial reporting. Hendriksen [1977] advocates that annual reports should include the use of procedure that materially affect income or balance-sheet presentation, a material change in procedures from one period to another, significant events or relationship not arising from normal activities, special contracts of assignments, material events likely to affect expectations, material changes in activities or operations that would affect decisions regarding the firm.
Many writers have also suggested the disclosure of many items. For instance, Chandra [1975] finds information concerning the income statements, earning per share, budgeting projections and forecasts more useful to security analyst for investment decisions. Lee [1982] has suggested cash flow reporting along with conventional financial statements. The study conducted by Chenhall and Juchan [1977] concludes that information, both specific to the company, which is not disclosed in the corporate report bears strongly on investment decision. Morton Backer has found commercial bankers attaching more value to information regarding liquidity, net tangible assets, profitability, funds-flow, adequacy of equity capital, non-current assets, capital expenditure plans. Brummet et. al., [1968] have recommended that companies account for their human resources also. Segment reporting for investors, reporting of external costs with respect to the ecological impact of the company's operations and managerial estimates and expectations have been suggested for disclosure.

In recent times, the pronouncements of IASB on various items to be included in financial reporting have almost become mandatory. Hence the IASC has suggested the disclosure of following items of information; restrictions on the little to assets, security given in respect of liabilities, pension and retirement plans, contingent assets and contingent liabilities, amounts committed for future capital expenditure, property, plant and equipment, long-term investments, long-term receivables, goodwill, patents, trademarks and similar assets, expenditure carried forward such as preliminary expenses, deferred taxes, reorganization expenses, current assets like cash, marketable securities, receivables, inventories, long-term liabilities such as secured loans, unsecured loans, inter-company loans, loans from associated companies, current liabilities such as bank loans and overdraft, current portion of long-term liabilities, payables, deferred taxes, share capital, capital paid-in excess of par value (share premium), revaluation surplus, reserves, retained earnings [Greuning: 2005].

(c) Mode:

Mode refers to the method of disclosing information and this factor also influences on the usefulness of information. Several different methods of
making disclosure are: (i) form and arrangement of formal statements, (ii) terminology and detailed presentations, (iii) parenthetical information, (iv) footnotes, (v) supplementary statements and schedules, (vi) comments in the auditors' certificates, (vii) chairman's or president's letter, and (viii) report of the board of directors.

The suitability of any method of financial reporting in any circumstances should only be judged by its success in furthering the objectives of the financial report. Form of presentation should be so designed as to enhance the reader's understanding of the data and minimize the possibility of misinterpretation. Investors would undoubtedly like to see accounts drawn up in a manner, which provides the most satisfactory basis for assessing the future prospects of a company's quality, which has been described as a 'predictive ability.' [Sandiland: 1975, 47]. It is important to note that the so-called unimportant information may become important information for the users. In this regard AAA [1972:567] observes: "Notes to the financial statements and related schedules represent a great potential for aiding full and fair disclosure of financial information. This potential is not being used to its full extent... greater reliance on schedules rather than textual material might improve understanding." Hence due care should be exercised by the drafters of financial reporting in judging whether a particular information is important or not and the management should act in good faith to present the useful information.

**(d) Timeliness:**

The usefulness of annual reports depends on timeliness, which is also an element of adequate disclosure. Hence West [1968:75] argues that "timely disclosure is fundamental to good investor relation." According to APB [1970:37-38], timely financial accounting information should be communicated early enough to the users to be used for the economic decisions, which it might influence and avoid delay in making decisions. Delay in releasing financial statements is likely to result in redundancy of information and higher level of uncertainty associated with decisions and hence sub-optimal level of usefulness. In this regard, Givoly and Polmon [1982:486] conclude: "Timeliness of annual reports is an important determinant of their
usefulness... the price reaction to the disclosure of earning announcements was significantly more pronounced than the reaction to late announcements suggesting a decrease in the information content as the reporting lag increases."

The study by Abu-Nassar and Rutherford [1996] posits that 'timeliness' is the most important qualitative characteristic of financial information. The value of financial reported data depends upon its timely usefulness. In this regard West [1968:15], observes that the "timely disclosure is fundamental to good investor decisions." The APB [1970:37-38] specifies timeliness as one of the objectives of accounting. Delay in releasing financial statements leads to increased level of problems related to uncertainty, thus enhancing obsolescence of information, or chances of non-optimal decisions. In this regard, Givoly and Polmon [1982:486] empirically concluded: "Timeliness of annual report is an important determinant of their usefulness... the price reactions to the disclosure of earning announcements was significantly more pronounced than the reaction to late announcements suggested a decrease in the information content as the reporting lag increased."

Further, the relevance and usefulness are rooted in timeliness. Hence, Barton [1982] and Solomons [1989] states that another aspect of relevance is the timeliness of information. If the information is required due to its relevance, it must be available immediately or else it will lose its usefulness. Lastly, Davies and Whittered [1980] conclude that timeliness is a necessary condition to be satisfied, if financial statements are useful.

QUALITATIVE CHARACTERISTICS

If adequate disclosure increases the usefulness of accounting information, the qualitative characteristics enhance not only the quality of adequate disclosure but also help positively the measurement task in financial reporting. Even though the debate on what constitute qualitative characteristics, the most frequently identified qualitative characteristics comprise of (i) Relevance; (ii) Materiality; (iii) Conservatism; (iv) Comparability; (v) Consistency; (vi) Reliability; (vii) Understandability; and (viii) Freedom from bias and a brief analysis of these concepts has been presented below.
(i) Relevance:

The basic objective of provisioning of useful information gives rise to relevance characteristic of financial reporting. The concept implies that all those items of information should be reported that help the users in decision-making. In this regard, Shawayder [1968:86-87] explains relevance as a characteristic of a property, which should be considered by the user of information system. In the words of AAA [1966:7], “The primary standard requires that information must bear upon or be usefully associated with actions it is designed to facilitate or results desired to be produced”. The APB [1970:18-19] also holds relevance as “primary qualitative objective of financial accounting information.” Thus both the authorities [AAA’s Committee on Basic Accounting Theory and accounting Principles Board] have listed relevance as the most important characteristic. Information that is not relevant is useless because that will not aid users in making decisions. Relevant information also reduces decision maker's uncertainty about future acts. A necessary test of the relevance of reportable data is their ability to predict events of interest of statement users.

(ii) Materiality:

The concept of materiality permeates the entire field of accounting and auditing. The materiality concept implies that not all financial information need or should be communicated in accounting reports; only material information should be reported. Immaterial information may and probably should be omitted. Information should be disclosed in an annual report, which is likely to influence economic decision of the users. Information that meets this requirement is material. Kohler [1972:279] defines materiality as “the characteristic attaching to a statement, fact or item whereby disclosure or the method of giving it an expression would be likely to influence the judgment of a reasonable person.” The US Securities and Exchange Commission (SEC) (Regulations 5-X) links the materiality concept “to those matters as to which an average prudent investor ought reasonably to be informed before purchasing the security registered.” Hicks [1964:160] and Connor and Colline [1974] have supported the SEC's concept of materiality as user
oriented. However, the characteristics of an average investor or the decision model that he uses are difficult to specify. The APB [1970:48] has identified materiality “with information that is significant enough to effect evaluation of decisions.”

Materiality decisions involve the use of judgment. No generally accepted guidelines have been established for judging materiality. Basically, materiality judgments should relate to the significance of information and its impact on user’s economic decisions. Neuman [1968:5] has established that the effect on earnings is the primary standard to evaluate materiality in a specific case. Still materiality decisions are highly subjective and judgment of an accountant is a strong factor in the making of a materiality decision. No single materiality criterion is an appropriate or applicable to all situations.

Pattilo [1975:19-21] concludes after interviewing 700 participants including drafters, users, CPAs and accounting educators on the concept of materiality in these words: “...... [T]here are significant differences in judging materiality depending on the profitability of an enterprise, the type of judgment item, the circumstances or factors presented in the case and the prospective of the participating groups. The specific circumstances include, among others, the type of business activity, environmental and other company factor, the accounting policies of the firm and uncertainties about the future.”

(iii) Conservatism:

Measurement process in financial reporting is to a large extent a product of conservatism and it is practiced in accounting since times immemorial. According to Kieso and Weygandt [1995:35], “When an accountant is in doubt over recording a transaction, he should choose the solution that will be least likely to overstate assets and liabilities.” Further, the concept is well brought out in the accounting adage, ‘expect all losses and no gains.’ One direct manifestation of this concept is that no credit should be taken for revenue until it has been realized but provisions and losses should be recorded for all known liabilities. With no theoretical justification for this concept, Lewis and Pendrill [1996] argue: “This asymmetrical approach leads to bias” that will tend to understate profit and Basu [1997], under ‘value assets.’ Further, the studies by Ball et. al., [2000], Pope and Walker [1999]
have shown that conservatism is an important characteristic of financial statements in a number of countries. Chang et al., [2003] identify three forces that led to conservatism in accounting: Firstly, contractual arrangements between company managers, stockholders, and creditors have resulted in the voluntary adoption of conservative accounting practices. Managers have an information advantage over shareholders and creditors and they may use this advantage to enrich themselves at the expense of the outsiders. Because of this information asymmetry, shareholders and creditors may restrict the equity and debt financing they provide to the company and/or they may make financing and credit costs more expensive. To allay the fears of outsiders, managers may adopt conservative accounting practices as well as engage in other bonding arrangements including the appointment of independent auditors. Knowing that the company uses conservative accounting practices may provide some safeguard for investors and creditors and this may induce them to invest in or lend to the company.

Secondly, government legislation and the legal and quasi-legal promulgations of regulatory agencies and professional accountancy bodies restrict accounting choice. These laws and standards mandate or otherwise require the adoption of accounting standards that are conservative. Here governments, via legislation, and the accounting profession, via GAAP and issue-specific standards, set and enforce conservative accounting rules. The rationale for these rules is to help ‘protect’ the interests of investors and creditors so that the availability of capital and borrowings as well as the functioning of share and credit market are enhanced.

Finally, litigation against companies has become more common and more costly in recent years and one basis for lawsuits is alleged fraudulent or misleading annual accounts. To avoid or reduce this type of litigation, managers may err on the side of conservative accounting practices.

(iv) Comparability:

Comparability implies to have like things reported in a similar fashion and unlike things reported differently. Hendriksen [1977:123] observes that the “primary objective of comparability should be to facilitate the making of predictions and financial decisions by creditors, investors and others. He
defines comparability as the quality or state of having enough like characteristics to make comparison appropriate.”

(v) Consistency:

Consistency refers to the adoption of same accounting practices and procedures for all accounting items over time. According to Hendricksen [1977:548], consistency has been used to refer to the use of same accounting procedures by a single firm or accounting entity from period to period, the use of similar measurement concepts and procedures for related items within the statement of a firm for a single period and the use of same procedures by different firms.

(vi) Reliability:

Reliability is that quality, which permits users of data to depend upon it with confidence as representatives of what it purports to represent. But reliable information is not necessarily useful. It is the responsibility of management to report reliable information can be achieved by management if it applies generally accepted accounting principles, appropriate to the enterprise's circumstances, maintains proper and effective systems of accountants and internal control and prepares adequate financial statements. If corporate managements decide to disclose uncertainties and assumptions in annual reports, they will increase the value of the information expressed therein.

Reliability is not a precise or a clear term in accounting. Financial reporting is purported to be reliable, if it encompass representational faithfulness and verifiability as observed by FASB [1979:para. 54] in these words “…The reliability of a measures rests on the faithfulness with which it represents what it purports to represent, coupled with an assurance for the user, which comes through verification, that it has that representational quality. Information may be unreliable because it has one or both kinds of bias. The measurement method may be biased so hot the resulting measurement fails to represent what it purports to represent. Alternatively, or additionally measure through lack of skill or lack of integrity or both may
misapply the measurement chosen. In other words, there may be bids, not necessarily identified on the part of the measure."

(vii) Understandability:

The basic challenges of understandability lie in capturing economic reality in conveying that information to the relevant users. Hence Jordan [1970:139] observes: “The purpose of accounting is to communicate economic messages on the results of business decisions and events, in so far as they can be expressed in terms of quantifiable financial data, in such a way as to achieve maximum understanding by the user and correspondents of the message with economic reality.” Further, the usefulness of information disclosed in annual reports depends on its being presented in an understandable form. Hence Buzby [1974] suggests that to make annual reports adequate and readable, the information contained should grouped and organized appropriately. The major components of understandability are presentation, classification and terminology and understanding capability. In this regard, the APB [1970] asserts that understandable financial reporting presents data that can be understood by users of the information and is expressed in a form and terminology adopted to the user’s range of understanding. The essence of understandability is ably recognized by Lal [1985: 58] in these words: “Information in annual reports should be presented in which it can be understood by reasonably well informed as well as by sophisticated users. Presenting information, which can be understood only by sophisticated users and not by others creates a bias, which is inconsistent with the standards of adequate disclosure. Presentation of information should not only facilitate understanding but also avoid wrong interpretation of financial statement[s].” Further, the Corporate Report [1975: 28-29], captures the concept of understandability in these words: “Understandability does not necessarily mean simplicity, or that information must be presented in elementary terms, for that may not be consistent with the proper description of complex economic activities. It does mean that judgment needs to be applied in holding the balance between the need to ensure that all material matters are disclosed and the need to avoid confusing information for users by the provision of too much detail. Understandability calls for the provision, in the
clearest form, of all the information, which the reasonably instructed reader


can make use of and the parallel presentation of the main features for the use


of the financial reporting to the sophisticated." Hence APB [1970: 19]


observes that financial reporting should be so designed as to serve a broad


range of users instead of being limited to average investor or sophisticated


users.


Epstein and Pava [1994] contend that the language style might have a


material effect on the readership and influence the understandability of


information that appears in annual reports.


Wolk et. al., [1992] suggest that even if users of annual reports are


assumed to be knowledgeable, the information itself could have different


degrees of comprehensibility. In this regard, Abu-Nasser and Rutherford


[1996] examine the level of understanding of various Jordanian user groups


when applied to various sections of an annual report and they observe that all


users groups find the contents easy to understand.


(viii) Freedom From Bias:


Freedom from bias means that facts have been impartially determined


and reported, Wagner [1965:604] has defined objectivity in accounting as a


quality said to exist when financial data are presented in a manner that


produces a high reliable connection between the event taking place in a given


business entity and the mental image created in the user's mind about those


events. Objectivity in financial presentations is attained by the individual


practitioners through the competent and ethical exercise of professional


judgment in conjunction with reference points (procedures and principles)


socially prescribed by the members of the profession as a corporate body.


FINANCIAL REPORTING AND REGULATION


Very few economic and social activities escape regulation of some kind


or the other and the scope of regulatory activity provides no easy definition.


Taylor and Turley [1986:1] define financial reporting regulation in these words:


"The term 'regulation' may encompass the activities of governments,


regulatory agencies established by governments, trade or other associations


in the private sector, or loose industrial groups which pursue collusive


40
activities. Consequently, we shall take a broad interpretation of regulation as it affects accounting statements by defining it as the imposition of constraints upon the preparation, contents and form of external financial reports by bodies other than the preparers of the reports, or the organizations and individuals for which the reports are prepared." The case for reporting regulation scheme form the failure of market economy and it is considered a public good, which needs regulation. Regulation of financial reporting is also intended to provide investor protection. Added to this, Ross [1965] observes that development in regulations have come about in response to scandals and failures perpetuated through wrong financial reporting.

The regulation of financial reporting may be undertaken mainly in three different ways. Firstly, a government may adopt a prescriptive approach by which detailed principles, rules and procedures are laid down and enforced by law. Secondly, a government may establish less defined rules and private sector bodies may develop detailed rules, which are to be observed by the profession as additional regulations. Lastly, legal regulations may provide only general requirements and private regulatory bodies are expected to assist in their interpretation. In fact, the financial reporting regulation falls into this third category in majority of the countries in the sense that the board framework of financial reporting is provided under regulation in terms of format and contents of financial statements and detailed rules of measurement and valuation are left to be established by the accounting profession itself through its independent judgment. In this regard, Flint [1982] observed: In such circumstances, much reliance is placed, either explicitly or by default, upon the independent judgment of those qualified by training and experience to conform that, within the legal and social framework, financial reports follow the general requirement prescribed by law. As a result, financial reporting has traditionally relied on a general framework prescribed by law and the judgment by the professionals.

The developments the accounting regulation have been aptly, described by Taylor and Turley [1986:18-19] in these words: "The development of accounting regulations is closely bound up with that of accounting itself, and each has been greatly shaped by broad social and economic forces. Before the industrial revolution, the predominant source of
finance for business enterprise was internal and consequently financial statements served only the needs of the proprietor / manager. As the industrial revolution progressed, and as internal sources of finance proved insufficient to meet the needs of increasingly large-scale industrial enterprise subject to rapid technological change, external finance became more important. With the development of joint stock company a new group of people having an interest in the affairs of the enterprise emerged, namely shareholders. Management and ownership were divorced and financial statement became important vehicle for the provision of information to actual and potential shareholders. More recently, the position of, for example, members of an enterprise's work force has been recognized as more akin to that of stake-holders than employees. As well as new classes of users of financial information, new categories of transactions have emerged and with them new accounting problems." Further, Prais [1976] observed that "mergers of companies became extremely popular once the limited liability form of company organization became wide spread and brought within the need for methods of group accounting."

Accounting regulation has evolved with changing patterns and expanded disclosure to achieve the usefulness of the financial reporting in investment decisions as coherently presented by Taylor and Turley [1986:43-44] in these words: "The requirements of successive companies acts have reflected a changing pattern of objectives and influences in the development of accounting regulation. In the nineteenth century and early twentieth century, the principal concerns were the possibility of business failure and protection against fraud or misappropriation of frauds. The changing nature of companies as economic entities was also an influence as director's became increasingly separated from shareholders. Thus the emphasis was placed on stewardship of assets and funds, and the protection of investor's and creditors. The continued development of the business entity has led to emphasis being placed on the use information in investment decisions, and the disclosure of an increasing amount of information, as well as the fact that information should be publicly available".
ACCOUNTING STANDARDS AND FINANCIAL REPORTING

Corporate financial reporting has undergone an evolutionary process. Initially, it started with individual practices leading to group practices and then to professional process, which found an expression under GAAP. In recent years, the term ‘GAAP’ has been abandoned and the new term ‘standards’ has been officially recognized under financial reporting throughout the world including India. Advocating the adoption of this term, Paton and Littleton [1940] observed: “The term ‘standards’ is used advisedly. ‘Principles’ would generally suggest universality and a degree of performance which cannot exist in a human-service institution such as accounting.” The Wheat Committee [1972:19] provided the right push for its usage in financial reporting and it observed: “Accounting principles’ has proven to be an extraordinary elusive term. To the non-accountant [as well as to many accountants] it connotes things basic and fundamental, of a sort, which can be expressed in few words... In the Study’s judgment, the word ‘standards’ is more descriptive of the majority of the Board’s [APB] pronouncements as well as the great bulk of its ongoing efforts.”

A change in nomenclature from principles to standards is not without significance. According to Solomons [1986:42], the change of nomenclature had a deeper impact on accounting in the sense that the term propelled reforms in financial reporting through pronouncing standards to be adopted in preparing financial reports by the professionals. The various issues on adopting accounting standards in preparing financial statements have been presented under (i) Defining Standards; (ii) Worldwide Progress; and (iii) Nature of Standards.

(i) Defining Standards:

Accounting standards may be defined as written statements issued by relevant accounting professional bodies or regulatory bodies to be observed in the preparation of financial reports and each standard prescribes, which accounting policy is or policies are to be observed by the preparers. According to Littleton [1953:143], “A standard is an agreed upon criteria of what is proper practice in a given situation; a basis for comparison and judgment; a point of departure when variation is justifiable by the
circumstances and reported as such. Standards are not designed to confine practice within rigid limits but rather to serve as guideposts to truth, honesty and fair dealing. They are not accidental but intentional in origin; they are expected to be expressive of the deliberately chosen policies of the highest types of businessmen and the most experienced accountants; they direct a high but attainable level of performance, without precluding justifiable departures and variations in the procedures employed."

In the words of Broomwich [1985:1], “Accounting standards [are] uniform rules for financial reporting applicable either to all or to a certain class of entity promulgated by what is perceived of as predominately an element of the accounting community specially created for this purpose. Standard setters can be seen as seeking to prescribe a preferred accounting treatment from the available set of methods for treating one or more accounting problems. Other policy statements by the profession will be referred to as recommendations. Normally these standards are directed towards the items in the financial statements of an enterprise."

Tricker [1983:27] cogently presents the rationale of accounting standards in these words: “Accounting standards deal mainly with financial measurements and disclosures used in producing a set of fairly presented financial statements. In this respect, accounting standards can be thought of as a system of measurement and disclosure. They also draw the boundaries within which acceptable conduct lies and in that and many other respects, they are similar in nature to laws. Accounting standards can thus be seen as a technical response to call for better financial accounting and reporting; or as a reflection of a society’s changing expectations of corporate behaviour and a vehicle in social and political monitoring and control of the enterprise."

Similarly, the Advisory Group on Accounting and Auditing [2001] set up by the Reserve Bank of India (RBI) sets out the significance of standards in these words “Standards help to promote sound financial systems domestically and financial stability internationally. They play an important role in strengthening financial regulation and supervision, enhancing transparency, facilitating institutional development and reducing vulnerabilities. Standards also facilitate informed decision making lending and investment and improve market integrity and, thereby, minimize the risks of financial distress and
contagion. Standards are not ends in themselves but a means for promoting sound financial fundamentals and sustained economic growth. The adoption of standards in itself, however, is to sufficient to ensure financial stability. The implementation of standards must fit into a country’s overall strategy for economic and financial sector development taking into account the stage of development, level of institutional capacity and other domestic factors.”

(ii) Worldwide Progress:

With the objectives of minimizing the number of alternative policy choices by the management and thereby achieving the objective of harmonization in financial reporting at the international level, regional level and national level, the institutional framework mainly consists of International Accounting Standards Board [formerly called International Standards Committee], which issues the international accounting standards [IASs] to be followed by companies having cross-border transactions, and national accounting standards boards known as Accounting Standards Boards (ASBs) issuing accounting standards [ASs] to be observed by companies in a country. Currently, these two types of standards are issued worldwide by the IASB and the ASBs. The IASs are applicable to enterprises engaged in cross border transactions. If a country does not have its own accounting standards, the IASs are to be followed. If a country has its own accounting standards, then the local standards prevail over IASs in view of cultural differences having an impact on measurement and valuations across countries and the enforcement of standards in a country are basically dictated by the cardinal principle of observing the local law of a country.

In this background, the progress of IASs and ASs in India has been presented in Figure 2.3 and Figure 2.4 highlighting the nomenclatures adopted by IASB and ASB and also the sequencing of the standards.
### FIGURE 2.3
**NOMENCLATURE AND SEQUENCING DIFFERENCES: IASs Vs ASs.**

<table>
<thead>
<tr>
<th>SL No.</th>
<th>IAS No.</th>
<th>Title of the Standard</th>
<th>AS No.</th>
<th>Indian Accounting Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>Presentation of Financial Statements</td>
<td>3</td>
<td>Disclosure of Accounting Policies</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>Inventories</td>
<td>4</td>
<td>Valuation of Inventories</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>Corresponding IAS has been withdrawn since the matter is now covered by IAS 16, 22 and 38</td>
<td>5</td>
<td>Depreciation Accounting</td>
</tr>
<tr>
<td>4</td>
<td>7</td>
<td>Cash Flow Statement</td>
<td>6</td>
<td>Contingencies and Events Occurring after the Balance Sheet Date.</td>
</tr>
<tr>
<td>5</td>
<td>8</td>
<td>Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies</td>
<td>7</td>
<td>Contingencies and Events Occurring after the Balance Sheet Date.</td>
</tr>
<tr>
<td>6</td>
<td>10</td>
<td>Events after the Balance Sheet Date</td>
<td>8</td>
<td>Contingencies and Events Occurring after the Balance Sheet Date.</td>
</tr>
<tr>
<td>7</td>
<td>11</td>
<td>Construction Contracts</td>
<td>9</td>
<td>Accounting for Construction Contracts</td>
</tr>
<tr>
<td>8</td>
<td>12</td>
<td>Income Taxes</td>
<td>10</td>
<td>Accounting for Fixed Assets</td>
</tr>
<tr>
<td>9</td>
<td>14</td>
<td>Segment Reporting</td>
<td>11</td>
<td>Accounting for Fixed Assets</td>
</tr>
<tr>
<td>10</td>
<td>16</td>
<td>Property, Plant and Equipment</td>
<td>12</td>
<td>Accounting for Fixed Assets</td>
</tr>
<tr>
<td>11</td>
<td>17</td>
<td>Leases</td>
<td>13</td>
<td>Accounting for Fixed Assets</td>
</tr>
<tr>
<td>12</td>
<td>18</td>
<td>Revenue</td>
<td>14</td>
<td>Accounting for Fixed Assets</td>
</tr>
<tr>
<td>13</td>
<td>19</td>
<td>Employee Benefits</td>
<td>15</td>
<td>Accounting for Retirements Benefits in the Financial Statements of Employers</td>
</tr>
<tr>
<td>14</td>
<td>20</td>
<td>Accounting for Government Grants and Disclosure of Government Assistance</td>
<td>16</td>
<td>Accounting for Government Grants</td>
</tr>
<tr>
<td>15</td>
<td>21</td>
<td>The Effects of Changes in Foreign Exchange Rates</td>
<td>17</td>
<td>Accounting for Government Grants</td>
</tr>
<tr>
<td>16</td>
<td>22</td>
<td>Business Combinations</td>
<td>18</td>
<td>Accounting for Government Grants</td>
</tr>
<tr>
<td>17</td>
<td>23</td>
<td>Borrowing Costs</td>
<td>19</td>
<td>Accounting for Government Grants</td>
</tr>
<tr>
<td>18</td>
<td>24</td>
<td>Related Party Disclosures</td>
<td>20</td>
<td>Accounting for Government Grants</td>
</tr>
<tr>
<td>19</td>
<td>27</td>
<td>Consolidated Financial Statements and Accounting for Investments in Subsidiaries</td>
<td>21</td>
<td>Consolidated Financial Statements</td>
</tr>
</tbody>
</table>

Contd.,
### Table: Accounting Standards Withdrawn

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>IAS No.</th>
<th>International Accounting Standards</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>29</td>
<td>Financial Reporting in Hyper-inflationary Economics</td>
<td>The International Accounting Standard is applicable only in those countries where the inflationary rate is extremely high, i.e., where hyper-inflationary situation exists. The Institute notes that the hyper-inflationary conditions do not prevail in India. Accordingly, there is no justification to issue an Accounting Standard on the Subject.</td>
</tr>
</tbody>
</table>

* It may be noted that International Accounting Standards nos. 3, 4, 5, 6, 9, 13 and 25 have already been withdrawn by the International Accounting Standards Committee.

(II). Guidance Note issued by the Institute on the subject corresponding to the International Accounting Standard International Accounting Standard (IAS) 15, Information Reflecting the Effects of Changing Prices.

III. International Accounting Standards not considered relevant for issuance of either Accounting Standards or the Guidance Notes by the Institute for the reasons indicated.

Contd.,
I. Disclosures in Financial Statements of Banks and Similar Financial Institutions

Covered by the Banking Regulations Act, 1949; also certain disclosure norms have been prescribed by the Reserve Bank of India. Therefore, Accounting Standard on the subject is not considered necessary at present.

IV. Accounting Standards presently under preparation corresponding to the International Accounting Standards

<table>
<thead>
<tr>
<th>SL. No.</th>
<th>IAS No.</th>
<th>Title of the Standard</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>32</td>
<td>Financial Instruments: Disclosure and Presentation</td>
<td>Under Preparation</td>
</tr>
<tr>
<td>2</td>
<td>37</td>
<td>Provisions, Contingent Liabilities and Contingent Assets</td>
<td>Under Preparation (at present covered by AS 4)</td>
</tr>
<tr>
<td>3</td>
<td>41</td>
<td>Agriculture (effective from 01.01.2003)</td>
<td>Under Preparation</td>
</tr>
</tbody>
</table>

V. In respect of International Accounting Standard (IAS) 39, Financial Instruments: Recognition and Measurement, Accounting Standards Board of the Institute has decided not to issue a corresponding Indian accounting standard since the IAS 39 is based on fair value approach for which time is not ripe enough in India at present. Accordingly, it was decided that the aspects of the IAS would be covered by the Guidance Notes already issued* and to be issued by the Research Committee.


**FIGURE 2.4**

RECONCILIATION OF THE INTERNATIONAL ACCOUNTING STANDARDS WITH THE INDIAN ACCOUNTING STANDARDS

<table>
<thead>
<tr>
<th>Description</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of International Accounting Standards (IASs) issued by the International Accounting Standards Committee (IASC)</td>
<td>41</td>
</tr>
<tr>
<td>Less: Number of IASs since withdrawn by the IASC</td>
<td>(7)</td>
</tr>
<tr>
<td>Add: IAS 4 which has been withdrawn, however, included here for reconciliation purposes because corresponding Accounting Standard of the ICAI (i.e. AS 6) is in force</td>
<td>1</td>
</tr>
<tr>
<td>Accounting Standards (ASs) and other documents issued by the Institute of Chartered Accountants of India</td>
<td>1</td>
</tr>
</tbody>
</table>

Contd.,
Since its inception in 1973, IASB has issued 41 IASs and more standards are in the pipeline. These standards are subject to changes due to changing economic scenario and most of the standards are reformulated. Further, the standards promulgated by IASB were labeled as IASs till 2001. Now these standards have been designated as International Financial Reporting Standards [IFRSs]. Rathod [2006: 988] sums up the change of nomenclature from IASs to IFRSs in these words: “International Financial Reporting Standards [IFRSs] has both a narrow and a broad meaning. Narrowly, the IFRSs refer to the new numbered series of pronouncements that the IASB is issuing, as distinct from the International Accounting Standards [IASs] series issued by its predecessor. More broadly, IFRSs refer to the entire body of IASB pronouncements, including standards and interpretations approved by the IASB and IASs and SIC interpretations approved by the predecessor, International Accounting Standards Committee.” IFRS are continually reviewed and updated to take account of the changing business environment and new challenges that emerge from time to time.
As indicated in Figure 2.3, 41 standards have been issued by IASB and after reformatting the number of IASs stand at 35. The ASB in India has issued 28 standards so far and AS 28 has been merged with AS 26. As a result, there are 27 accounting standards, which have become mandatory. To conclude, the pronouncements of standards by the IASB and the ASB in India have not been in a tandem, but the synchronization between IASs and ASs may be a distant possibility.

(iii) Nature of Standards:

A standard promulgated by a competent authority deals with a specific accounting issue, say inventory valuation, revenue recognition, cash flow determination, valuation of intangible assets, depreciation and the like. Each standard contains the objective of the standard, scope of application, definitions of key concepts, measurement concepts, a general presentation of extant practices, recommended policy choices and the method of disclosure. Any standard contains statements in italics and non-italics and these become the dictates of the standard to be observed compulsorily in the preparation of financial statements. A standard also contains the date from which it becomes effective. It is also important to note that ‘guidance notes,’ ‘statements,’ ‘interpretations’ and ‘clarifications’ issued by the authority issuing standards also constitute standards per se.

THE INDIAN SCENE

In tune with international developments, India has also responded positively by enacting the Companies Act, 1956 with frequent amendments and also by promulgating its own standards from time to time. These developments in India have been presented under (i) Financial Reporting Regulation in India; and (ii) Accounting Standards in India.

(i) Financial Reporting Regulation in India:

In tune with the world development in financial reporting, Indian financial reporting has also undergone an evolutionary process and the British Companies Acts have basically influenced this process because of historicity.
The financial reporting regulation in India has been presented under (a) Its Evolution; and (b) Present Status.

(a) Its Evolution:

The first Indian statutory Act of legal recognition to financial reporting was passed in 1886, known as the Indian companies Act, 1886. Section 74 of this Act contained specific provisions about the balance sheet only under regulations 78 to 94 of the Table A. This provision required maintenance of true and correct accounts of the stock in trade of the company and the sums received and expended by it along with credits and liabilities of the company. Regarding the balance sheet, it required the summary of the property and liabilities of the company, arranged in the form annexed to the Table A or as near they were to as circumstances permitted. Highlighting the deficiencies of the balance sheet under this Act, the Bhabha Committee [1952:126] observed that the form of the balance sheet included very few items and the information to be disclosed was also limited.

The Indian Companies Act 1913 required more detailed provisions regarding annual reports. Sections 139 to 132 dealt with these provisions. Articles 107 and 108 of Table A presented guidelines for preparation of profit and loss account and balance sheet. Further, a compulsory form of balance sheet under Form - F of schedule III was provided. Article 107 prescribed that the profit and loss account should reveal components of gross income and expenditures under convenient heads with the amounts recognizable and chargeable. The balance sheet was required to be made out every year and laid before the general meeting of the company, accompanied by a report of directors as to state of affairs of the company, dividend proposed and the amount proposed to be carried to reserve fund.

The landmark achievements of the Companies (Amendment) Act, 1936 were related to amending section 130 requiring books to be kept by a company and penalty for not keeping books of accounts and making profit and loss account having equal status with balance sheet. Section 131 was newly introduced making directors' report on accounts compulsory. Section 132 (3) required compulsory disclosure of remuneration to agents, directors, and managers.
After independence, the Companies Act incorporated major financial reporting requirements by bringing the consolidation of the previous companies acts to the present Act, which was passed in 1956. Provisions in Table A were incorporated in the main provisions of the Act. The hallmark of this Act was that many important areas of management and company accounting practices that were entirely left to the judgment of the board of directors, were brought as provisions having surveillance by shareholders.

The Companies (Amendment) Act, 1961 removed several vague accounting items like liability fund and any other fund created out of net profits and classification of items as reserves were changed as provisions. The classification of several assets into current assets and fixed assets was implemented. The content of profit and loss account was enlarged to provide a higher level of disclosure, especially with regards to different types of opening and closing stocks.

The Companies (Amendment) Act, 1973 enlarged the scope and magnitude of disclosure focusing on: (i) Specified details in respect of investments and profit earned or loss incurred in partnership firms in which the company is a partner; (ii) Quantities and amounts in respect of the turnover of each class of goods; (iii) Break-up in quantity and value in respect of each class of raw materials consumed or purchased; (iv) Class-wise break up of quantity and value in profit and loss account in respect of opening and closing stock of goods manufactured or purchased; (v) Break-up of expenditure on salary, wages and bonus in respect of employees drawing a remuneration of Rs.3,000 or more; and (vi) Suitable quantitative details regarding licensed capacity, installed capacity and actual production in respect of each class of goods manufactured.

(b) Present Status:

Most of the sections of the Companies Act, 1956 cited above relate to disclosure practices to a substantial level. It is important to note that the financial reporting measurement process is also regulated directly at the minimum level and indirectly at the maximum level. From the viewpoint of indirect regulation, Section 205 states that no dividend shall be declared or paid by a company except out of profits and the profit measurement for this
purpose is subject to the provision for depreciation in accordance with sub-section 211(2). Directly, Section 209 states that every company shall keep proper books of accounts with respect to (a) all sum of money received and expended by the company and the matters in respect of which the receipt and expenditure take place; (b) all sales and purchases of goods by the company; (c) the assets and liabilities of the company and (d) in the case of a company pertaining to any class of companies engaged in production, processing, manufacturing or mining activities, such particulars relating to utilization of materials or labor or to other items of cost as may be prescribed, if such class of companies is required by the Central Government to include such particulars in the books of account. The other aspects of the present status of financial reporting regulation in India under different sections of the Companies Act, 1956 have briefly analyzed below.

Section 211 of the Companies Act, 1956 governs the form and contents of balance sheet and profit and loss account. This provision does not apply to an insurance company, a banking company or a company engaged in generation and supply of electricity or to any other company for which a form of balance sheet and profit and loss account has been specified under the Indian Electricity Act, 1948 governing such companies.

Section 211(1) provides that every balance sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of the financial year and shall, subject of the provision of this section, be in the form set out in Part 1 of Schedule VI or as near thereto as circumstances admit or in such other form as may be approved by the Central Government either generally or in particular case; and in preparing the balance sheet due regard shall be had, as far as may be, to the general instructions for preparation of balance sheet under the heading “Notes” at the end of the Part.

Section 211(2) provides that every profit and loss account of a company shall give a true and fair view of the profit or loss of the company for the financial year and shall, subject as aforesaid comply with the requirements of Part II of Schedule VI, as far as they are applicable thereto.

Section 211(3) provides that the Central Government, by notification in the official Gazette, exempt any class of companies from compliance with any of the requirements in Schedule VI, if, in its opinion, it is necessary to grant
the exemption in the public interest. The exemption may be granted unconditionally or subject to such conditions as may be specified in the notifications.

Section 211(4) provides that the Central Government may, on the application, or with the consent of the Board of Directors of the company, by order, modify in relation to the company any of the requirements of this Act as to the matters to be stated in the company's balance sheet or profit and loss account for the purpose of adapting them to the circumstances of the company.

Thus, in order that the statements of a company exhibit a true and fair view of the state of affairs of a company, it is necessary that the information required by law (as specified in Schedule VI to the Act and Section 212 as regards subsidiary companies) should be disclosed and that the same should be displayed in the manner required. Insurance companies, banking companies and companies engaged in generation or supply of electricity should comply with respective Acts in preparation and presentation of financial statements.

Section 211(3A) – [Sub-sections 3A, 3B and 3C] were inserted by the Companies (Amendment) Act, 1999 with effect from 31.10.1998 and it states: “Every profit and loss account and balance sheet of the company shall comply with the accounting standards.”

Section 211(3B) – “When the profit and loss account and the balance sheet of the company do not comply with the accounting standards, such companies shall disclose in its profit and loss account and balance sheet, the following, namely, (a) deviation from the accounting standard; (b) the reasons for such deviation; and (c) financial effect, if any, arising due to such deviation.”

Section 211 (3C) states: “For the purpose of this section, the expression accounting standards/means the standards of accounting recommended by the Institute of Chartered Accountants of India constituted under the chartered Accountants Act, 1949, as may be prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards established under sub-section (i) and Section 210 (A). Provided that standards of accounting specified by the Institute of Chartered Accountants of India.
Accountants of India shall be deemed to be the Accounting Standards until the Accounting Standards are prescribed by the Central Government under this sub-section”.

Section 217 (2AA) inserted by the Companies (Amendment) Act, 2000 states that the board’s report shall also include a Director’s Responsibility Statement, indicating therein (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures; (ii) that the directors had selected such accounting policies and applied them consistently and made judgment and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period; (iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; and (iv) that the directors had prepared the annual accounts on a going concern basis.

Section 219 (1) requires that a copy of every balance sheet (including the profit and loss account, the auditor’s report and every other documents required by law to be annexed or attached, as the case may be, to the balance sheet), which is to be laid before a company in general meeting shall, not less than twenty-one days before the date of the meeting be sent to every member of the company and to the entitled persons. However, in the case of listed company, copies of the documents can be made available for inspection at its registered office for a period of twenty-one days before the date of meeting and the balance sheet and profit and loss account prepared in prescribed (Abridged) form can be sent for use of the members and others who do not need full statements. Such abridged accounts are to be prepared as per Form 23 AB of companies (Central Government’s) General Rules and Forms 1956. The statement shall be approved by the Board of Directors and signed on behalf of them.

Section 227A (1) (b) (iv) states that in the case of a listed company, copies of the documents can be made available for inspection at its registered office for a period of 21 days before the date of meeting and the balance
sheet and profit and loss account prepared in prescribed (abridged) form and they can be sent for use of the members and other entitled person.

Section 227(3) (d) requires that auditors' report shall also state whether, in his opinion, the profit and loss account and balance sheet comply with the accounting standards referred to in sub-section (3C) of Section 211.

Section 227 (4A) requires auditor's report to comply with the Companies (Auditor's Report) Order (CAR) 2003.

Section 292 A (1) has been introduced which states: "Every Company having paid-up capital of not less than five crore rupees shall constitute a Committee of the Board known as 'Audit Committee' which shall consist of not less than three directors and such number of other directors as the Board may determine of which two-thirds of the total number of members shall be directors, other than managing or whole-time directors."

(ii) Accounting Standards In India:

The setting of accounting standards in India has been taken up in the private sector led by the Institute of Chartered Accountants of India. The developments in standard setting process in India have been presented below under (a) Evolution; (b) Institutional Framework; and (c) Progress of Accounting Standards Board.

(a) Evolution:

The Institute of Chartered Accountants of India (ICAI) was established in 1949 under the Chartered Accountants Act of 1949 to serve the needs of accounting profession and improve the quality of financial reporting and regulation. It is the sole accounting institution that enjoys the right to audit the financial statements of companies. In the initial years, it paid less attention to the development of accounting principles. The Institute constituted a research committee in 1955 to give a new direction to accounting practices. Since then, it has brought out a number of research publications and guidance notes dealing with different issues in accounting and auditing. Until 1970, there were no significant developments. The setting up of ASC in 1970 in UK, replacement of APB by the FASB in 1973 in the USA and the setting up of IASC in 1973 had significant influence on the Indian accountancy profession.
As a result, the ICAI became an associate member of the IASC in 1974. By becoming a member of the IASC, the Institute undertook the obligation to support the objectives of the IASC. In the background of the possible misusing of flexible accounting policy alternatives, and to improve corporate reporting practices, the Institute held a joint workshop with Associated Chambers of Commerce and Industry (ASSOCHAM) on July 21, 1976. The workshop decided to set up a joint working group to review existing requirements relating to annual corporate reports and suggest modifications thereto. The outcome of the workshop was that the adoption of IASs in Indian financial reporting was not the right approach because the profession was unfamiliar with standards and financial reporting regulation in India clashed with IASs [Bhoopatkar: 1977]. Finally, it was decided not to go in for the adoption of international standards as such and develop national standards considering the existing laws, customs, usages etc., in the country and integrating the international standards to the extent possible.

Consequent to these decisions, the Accounting Standard Board (ASB), originally called Accounting Standards Committee (ASC) was established on 21st April 1977 as a non-standing committee of the Institute. The main function of the ASB is to formulate accounting standards in the light of national laws, customs, usages etc., and integrate to the extent possible with the international standards. Apart from the main function of formulating accounting standards, the ASB was expected to devote special attention to the following [Bhoopatkar, 1977: 253-254]: (i) Defining the purpose and limitations of published financial statements and of the attest functions of the auditor; (ii) Enumerating and describing the basic concepts to which the practices and procedures should conform; (iii) Stating accounting principles to which the practices and procedures should conform; (iv) Defining the phrases commonly used in the audit reports and imposing he terminology in these wherever found necessary; and (v) Moving towards the reduction in number of alternative practices in accounting.

Regarding the compliance with accounting standards, the Accounting Standards Board [2004: 5] observes: “The Accounting Standards will be mandatory from the respective date(s) mentioned in the Accounting Standards...
Standard(s). The mandatory status of an accounting standards implies that while discharging their attest functions, it will be the duty of the members of the Institute to examine whether the Accounting Standards is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the Accounting Standards, it will be their duty to make adequate disclosures in their audit reports so that the users of such financial statements may be aware of such deviations.”

(b) Institutional Framework:

The institutional framework for standard setting in India basically consists of the ICAI, which is the standard setting body. However, the Securities and Exchange Board of India (SEBI) acts as the monitoring body of the Indian stock market. It also acts as the supporting body and the suggestive body for the standards set by the ICAI.

The SEBI was set up on 30th January 1992 to protect the interests of investors in securities and to promote the development of and to regulate the securities market. Initially, SEBI restricted its role in financial disclosure to improving disclosure in prospectus and other offer documents. But after stock market scams, it is getting more active in the financial reporting arena. In 1995, it directed stock exchanges to amend the listing agreement and send their shareholders full annual reports, rather than the abridged ones currently permitted by the Companies Act.

As part of capital market reform, SEBI has further tightened listing norms. It has asked all regulators to make it mandatory for companies to come up with consolidated accounts, deferred tax payments and earnings per share (EPS) in accordance with international standards of accounting. It has warned Institute of Chartered Accountants of India to draft new norms in line with IASs [The New Indian Express, 16th February, 2001]. The failure to come up with these standards by March 31st, 2001 would force regulator to make it mandatory through listing requirements.

Recently, the SEBI has amended the clauses 41 and 32 of the listing agreement and a new clause has been added to it as clause 50 making it mandatory for companies to comply with all the accounting standards. As per
amendments, all the listed companies will be required to furnish segment wise revenues, results and capital employed along with quarterly un-audited results [The Financial Express, 7th September, 2001].

In India, the ICAI should also use corporate governance in its standard setting task. Hence the Kumara Mangalam Committee code on good corporate governance has now been made mandatory for all listed public companies through instrumentality of listing agreement. It has made obligatory on the audit committee to review any related party transaction, which is aimed at increasing transparency in disclosure of financial statements [The Financial Express, 10th July, 2000].

The Amended Clause in 49 of the Companies Act, 1956 provides for corporate governance. The corporate governance provides for setting up of audit committee. The SEBI’s perception of audit committee role includes the following functions. (i) Of the company’s reporting process and disclosure of its financial information to ensure that the financial statement is correct sufficient and credible; (ii) Reviewing with management the annual financial statements before submission to the board focusing primarily on: (a) Any changes in accounting polices and practices; (b) Major accounting entries based on exercise of judgment by management; (c) Qualification in draft report; (d) Significant adjustments arising out of audit; (e) The going concern assumption; and (f) Compliance with accounting standards. (iii) Compliance with stock exchange and legal requirements concerning financial statements; and (iv) Examination of any related party transaction.

Section 211 (3c) of the Companies (Amendment) 1999 states that the expression ‘accounting standards’ means standards of accounting recommended by the Institute of Chartered Accountants of India (ICAI) constituted under the Chartered Accountants Act, 1949 as may be prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards (NACAS) established under sub-section (i) and Section 210 (A). Provided that standards of accounting specified by the Institute of Chartered Accountants of India shall be deemed to be the Accounting Standards until the Accounting Standards are prescribed by the Central Government under this sub-section.” Accordingly, the NACAS was
established on 15th June 2001. The basic function of the NACAS is to advise the central government on the formulation and on laying down of accounting policies and accounting standards for adoption by companies or class of companies. The Committee consists of 12 members under the chairmanship of Yezdi H. Malegam with ICAI president as member secretary. Besides, it consists of a representative from ICSI, ICWAI, joint secretary of companies affairs, a nominee of RBI, a member from IA and AS, representative from university, a member from CBDT, nominee of SEBI, a representative from industry (CII nominee), and FICCI nominee. It is important to note that the advisory committee is only a recommendatory body to the central government. In nutshell, it may be observed that the establishment of ASs is still the prerogative of the ICAI and NACAS is a link between the ICAI and the central government, which gives official sanctity to the standards. It is still not clear at this stage regarding the strategic role played by the NACAS.

(c) Progress of Accounting Standards Board:

The Institute of Chartered Accountants of India (ICAI) constituted the Accounting Standards Board (ASB) on 21st April 1997 with the main objective of harmonizing the diverse accounting policies and practices in India.

The various dimensions of accounting standards promulgated by ASB have been presented under (1) Objectives of the ASB; (2) Scope of Accounting Standards; (3) Presentation of a Standard; (4) Compliances of ASs; (5) Applicability of ASs; (6) Exemptions/Relaxations for SMEs; (7) Universal Applicability; and (8) Progress of Accounting Standards.

(1) Objectives of the ASB:

The following are the objectives of the Accounting Standards Board: (a) To conceive of and suggest areas in which Accounting Standards need to be developed; (b) To formulate Accounting Standards with a view to assisting the Council of the ICAI in evolving and establishing Accounting Standards in India; (c) To examine how far the relevant International Accounting Standards/International Financial Reporting Standards can be adapted while formulating the Accounting Standards and to adapt the same; (d) To review, at regular intervals, the Accounting Standards from the point of view of
acceptance or changed conditions, and, if necessary, revise the same; (e) To provide, from time to time, interpretations and guidance on Accounting Standards; and (f) To carry out such other functions relating to Accounting Standards.

(2) Scope of Accounting Standards:

Efforts are made to issue Accounting Standards, which are in conformity with the provisions of the applicable laws, customs, usages and business environment in India. However, if a particular Accounting Standard is found to be not in conformity with law, the provisions 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 the country. However, the ICAI will determine the extent of disclosure to be made in financial statements and the auditor's report thereon.

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.

The Accounting Standards are intended to apply only to items, which are material. Any limitations with regard to the applicability of a specific Accounting Standard will be made clear by the ICAI 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 ICAI. 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 the Accounting Standards in order to achieve uniformity in preparation and presentation of financial statements. In formulation of Accounting Standards, the emphasis would be on laying down accounting principles and not detailed rules for application and implementation thereof.
(3) Presentation of a Standard:

The standards formulated by the ASB include paragraphs in bold italic type 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 the Preface to the Statements of Accounting Standards.

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

(4) Compliance with ASs:

The Accounting Standards are mandatory from the respective date(s) mentioned in the Accounting Standard(s). The mandatory status of an Accounting Standard implies that while discharging their attest functions, it will be the duty of the members of the Institute to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviation.

Ensuring compliance with the Accounting Standards while preparing the financial statements is the responsibility of the management of the enterprise. Statutes governing certain enterprises require of the enterprises that the financial statements should be prepared in compliance with the Accounting Standards. Financial statements cannot be described as complying with the Accounting Standards unless they comply with all the requirements of each applicable standard.

(5) Applicability of ASs:

The Council, at its 236th meeting, held on September 16-18, 2003, considered the matter relating to applicability of Accounting Standards to Small and Medium Sized Enterprises [SMEs]. This scheme comes into effect in respect of accounting periods commencing on or after 1-4-2004. The
Council decided the following scheme for applicability of accounting standards to SMEs and the scheme is presented in Figure 2.5.

FIGURE 2.5
APPLICABILITY OF ASs

(1) For the purpose of applicability of Accounting Standards, enterprises are classified into three categories, viz., Level I, Level II and Level III. Level II and Level III enterprises are considered as SMEs:

(2) Level I enterprises are required to comply fully with all the accounting standards; and

(3) It has been decided that no relaxation should be given to Level II and Level III enterprises in respect of recognition and measurement principles. Relaxations are provided with regard to disclosure requirements. Accordingly, Level II and Level III enterprises are fully exempted from certain accounting standards, which primarily lay down disclosure requirements. In respect of certain other accounting standards, which lay down recognition, measurement and disclosure requirements, relaxation from certain disclosure requirements are given. The exemptions/relaxations are decided to be provided by modifying the applicability portion of the relevant accounting standards.

Source: ICAI [2003]. Compendium of Accounting Standards, New Delhi: ICAI.

The criteria for classification of enterprises into Level I, Level II and Level III are given in Figure 2.6.

FIGURE 2.6
CRITERIA FOR CLASSIFICATION OF ENTERPRISES

Level I Enterprises
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:

(i) Enterprises whose equity or debt securities are listed whether in India or outside India.
(ii) Enterprises, which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.
(iii) Banks including co-operative banks.
(iv) Financial institutions.

Contd.,
(v) Enterprises carrying on insurance business.

(vi) All commercial, industrial and business reporting enterprise, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs.50 crore. Turnover does not include 'other income.'

(vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs.10 crore at any time during the accounting period.

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

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

(i) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs.40 lakh but does not exceed Rs.50 crore. Turnover does not include 'other income.'

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

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

Level III Enterprises:
Enterprises, which are not covered under Level I and Level II are considered as Level III enterprises.

Source: ICAI [2003]. Compendium of Accounting Standards, New Delhi: ICAI.

(6) Exemptions/Relaxations for SMEs:
The details of exemptions/relaxations of SMEs are presented under Figure 2.7.

FIGURE 2.7
EXEMPTIONS/RELAXATIONS FOR SMES

(A) Accounting Standards not applicable to Level II and Level III enterprises in their entirety:

(i) AS 3, Cash Flow Statements;

(ii) AS 17, Segment Reporting;

(iii) AS 18, Related Party Disclosures; and

(iv) AS 24, Discontinuing Operations.

Contd.,
(B) Accounting Standards not applicable to Level II and Level III enterprises since the relevant Regulators require compliance with them only by certain Level I enterprises. *

(i) AS 21, Consolidated Financial Statements;
(ii) AS 23, Accounting for Investments in Associated in Consolidated Financial Statements; and
(iii) AS 27, Financial Reporting of Interests in Joint Ventures [to the extent of requirements relating to consolidated financial statements].

*AS 21, AS 23 and 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.

(C) Accounting Standards in respect of which relaxations from certain disclosure requirements have been given to Level II and Level III enterprises.

(i) AS 19, Leases

Paragraphs 22[c], [e] and [f]; 25[a], [b] and [e]; 37[a], [f] and [g]; and 46[b]; [d] and [e], of AS 19 are not applicable to Level II and Level III enterprises.

(ii) AS 20, Earnings Per Share

As regards AS 20, diluted earnings per share and information required by paragraph 48 of AS 20 are not required to be disclosed by Level II and Level III enterprises if this standard is applicable to these enterprises because they disclose earnings per share. So far as companies are concerned, since all the companies are required to apply AS 20 by virtue of the provisions of Part IV of Schedule VI to the Companies Act, 1956, requiring disclosure of earnings per share, the position is that the companies which do not fall in Level I, would not be required to disclose diluted earnings per share and information required by paragraph 48 of AS 20.

(iii) AS 29, Provisions, Contingent Liabilities and Contingent Assets

- Paragraph 67 is not applicable to Level II enterprises.
- Paragraphs 66 and 67 are not applicable to Level II and Level III enterprises.

The above relaxations are incorporated in AS 29 itself.

Contd.,
(D) Accounting Standard applicability of which is deferred for Level II and Level III enterprises:

AS 28, Impairment of Assets

- For Level I Enterprises applicable from 1-4-2004.
- For Level II Enterprises applicable from 1-4-2006.
- For Level III Enterprises applicable from 1-4-2008.

(E) AS 25, Interim Financial Reporting, does not require any enterprise to present interim financial report. It is applicable only if an enterprise is required or elects to prepare and present an interim financial report. However, the recognition and measurement requirements contained in this Standard are applicable to interim financial results, e.g. quarterly financial results required by the SEBI.

Source: ICAI [2003]. Compendium of Accounting Standards, New Delhi: ICAI.

(7) Universal Applicability:

Accounting Standards applicable to all enterprises in their entirety [Level I, II, and III] are presented in Figure 2.8.

FIGURE 2.8
UNIVERSAL APPLICABILITY

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<td>AS 12, Accounting for Government Grants</td>
</tr>
<tr>
<td>(xii)</td>
<td>AS 13, Accounting for Investments</td>
</tr>
<tr>
<td>(xiii)</td>
<td>AS 14, Accounting for Amalgamations</td>
</tr>
<tr>
<td>(xiv)</td>
<td>AS 15, Accounting for Retirement Benefits in the Financial Statements of Employers</td>
</tr>
<tr>
<td>(xv)</td>
<td>AS 16, Borrowing Costs</td>
</tr>
<tr>
<td>(xvi)</td>
<td>AS 22, Accounting for Taxes on Income</td>
</tr>
<tr>
<td>(xvii)</td>
<td>AS 26, Intangible Assets</td>
</tr>
</tbody>
</table>
The revised Standard [2002] comes into effect in respect of all contracts entered into during accounting periods commencing on or after 1-4-2003 and is mandatory in nature from that date. Accordingly, the pre-revised AS 7 [issued 1983] is not applicable in respect of such contracts.

2 AS 8 is withdrawn from the date AS 26, Intangible Assets, becoming mandatory for the concerned enterprises, As 26 is mandatory in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2003 for the following:
   i. Enterprises whose equity or debt securities are listed on a recognized stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the board of directors' resolution in this regard.
   ii. All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs.50 crore.

In respect of all other enterprises, AS 26 is mandatory in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2004.

3 The revised AS 11 [2003] would come into effect in respect of accounting periods commencing on or after 1-4-2004 and would be mandatory in nature from that date. The revised Standard [2003] would supersede As 11 [1994], except that in respect of accounting for transactions in foreign currencies entered into by the reporting enterprise itself or through its branches before the date the revised AS 11 [2003] comes into effect, As 11 [1994] will continue to be applicable.

Source: ICAI [2003]. Compendium of Accounting Standards, New Delhi: ICAI.

(8) Progress of ASs:

Since its inception, the ASB has promulgated 30 accounting standards and there are 29 standards at present with the AS-8 on 'Accounting For Research and Development' being withdrawn and included under AS-26 on 'Intangible Assets'

FIGURE 2.9
ACCOUNTING STANDARDS AS ON JULY 1, 2005

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Accounting Standard [AS] No.</th>
<th>Title of the Accounting Standard</th>
<th>Date from which mandatory (accounting periods commencing on or after)</th>
<th>Mandatory</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>AS 1</td>
<td>Disclosure of Accounting Policies</td>
<td>1-4-1991 – for companies governed by the Companies Act, 1956, as well as for enterprises other than those specified in Note 1. 1-4-1993 – for all enterprises, including those specified in Note 1.</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(2)</td>
<td>AS 2 [Revised]</td>
<td>Valuation of Inventories</td>
<td>1-4-1999</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(3)</td>
<td>AS 3 [Revised]</td>
<td>Cash Flow Statements</td>
<td>1-4-2001</td>
<td>See Note 2</td>
</tr>
<tr>
<td>(4)</td>
<td>AS 4 [Revised]</td>
<td>Contingencies and Events Occurring After the Balance Sheet date</td>
<td>1-4-1995</td>
<td>For all enterprises</td>
</tr>
</tbody>
</table>

Contd.,
<table>
<thead>
<tr>
<th></th>
<th>AS Series</th>
<th>Description</th>
<th>Date</th>
<th>Application</th>
</tr>
</thead>
<tbody>
<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>1-4-1996</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(6)</td>
<td>AS 6 [Revised]</td>
<td>Depreciation Accounting</td>
<td>1-4-1995</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(7)</td>
<td>AS 7</td>
<td>Accounting for Construction Contracts</td>
<td>As in case of AS 1 above [see also Note 3.]</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(8)</td>
<td>AS 8*</td>
<td>Accounting for Research and Development</td>
<td>As in case of AS 1 above</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(9)</td>
<td>AS 9</td>
<td>Revenue Recognition</td>
<td>As in case of AS 1 above</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(10)</td>
<td>AS 10</td>
<td>Accounting for Fixed Assets</td>
<td>As in case of AS 1 above</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(11)</td>
<td>AS 11[Revised]</td>
<td>Accounting for the Effects of Changes in Foreign Exchange Rates</td>
<td>1-4-1995</td>
<td>For all enterprises [see also Announcement IX above]</td>
</tr>
<tr>
<td>(12)</td>
<td>AS 12</td>
<td>Accounting for Government Grants</td>
<td>1-4-1994</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(13)</td>
<td>AS 13</td>
<td>Accounting for Investments</td>
<td>1-4-1995</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(14)</td>
<td>AS 14</td>
<td>Accounting for Amalgamations</td>
<td>1-4-1995</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(15)</td>
<td>AS 15</td>
<td>Accounting for Retirement Benefits in the Financial Statements of Employers</td>
<td>1-4-1995</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(16)</td>
<td>AS 16</td>
<td>Borrowing Costs</td>
<td>1-4-2000</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(17)</td>
<td>AS 17</td>
<td>Segment Reporting</td>
<td>1-4-2001</td>
<td>See Note 2</td>
</tr>
<tr>
<td>(18)</td>
<td>AS 18</td>
<td>Related Party Disclosures</td>
<td>1-4-2001</td>
<td>See Note 2</td>
</tr>
<tr>
<td>(19)</td>
<td>AS 19</td>
<td>Leases</td>
<td>In respect of all assets leased during accounting periods commencing on or after 1-4-2001</td>
<td>For all enterprises</td>
</tr>
<tr>
<td>(20)</td>
<td>AS 20</td>
<td>Earnings Per Share</td>
<td>1-4-2001 [see also Note 4]</td>
<td>See Note 4</td>
</tr>
<tr>
<td>(21)</td>
<td>AS 21</td>
<td>Consolidated Financial Statements</td>
<td>1-4-2001 [see also Note 5]</td>
<td>See Note 5</td>
</tr>
<tr>
<td>(22)</td>
<td>AS 22</td>
<td>Accounting for Taxes on Income</td>
<td>See Note 6</td>
<td>See Note 6</td>
</tr>
<tr>
<td>(23)</td>
<td>AS 23</td>
<td>Accounting for Investments in Associates in Consolidated Financial Statements</td>
<td>1-4-2002 [see also Note 7]</td>
<td>See Note 7</td>
</tr>
<tr>
<td>(24)</td>
<td>AS 24</td>
<td>Discontinuing Operations</td>
<td>2004-05</td>
<td>See Note 8</td>
</tr>
<tr>
<td>(25)</td>
<td>AS 25</td>
<td>Interim Financial Reporting</td>
<td>1-4-2002 [see also Note 9]</td>
<td>See Note 9</td>
</tr>
<tr>
<td>(26)</td>
<td>AS 26</td>
<td>Intangible Assets</td>
<td>2003-04</td>
<td>See Note 10</td>
</tr>
<tr>
<td>(27)</td>
<td>AS 27</td>
<td>Financial Reporting of Interests in Joint Ventures</td>
<td>1-4-2002 [see also Note 11]</td>
<td>See Note 11</td>
</tr>
<tr>
<td>(28)</td>
<td>AS 28</td>
<td>Impairment of Assets</td>
<td>2004-05</td>
<td>See Note 12</td>
</tr>
<tr>
<td>(29)</td>
<td>AS 29</td>
<td>Provisions, Contingent Liabilities and Contingent Assets</td>
<td>2004</td>
<td></td>
</tr>
</tbody>
</table>
AS 8 would stand withdrawn with effect from the date AS 26, 'Intangible assets,' becomes mandatory [see Note 10 of this Table].

Note 1: (a) Sole proprietary concerns/individuals
(b) Partnership Firms
(c) Societies registered under the Societies Registration Act
(d) Trusts
(e) Hindu Undivided Families
(f) Associations of persons

Note 2: AS 3, AS 17, and AS 18 have been made mandatory in respect of following enterprises:
(i) Enterprises whose equity or debt securities are listed on a recognized stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the board of directors’ resolution in this regard.
(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs.50 crore.

Note 3: This standard has been revised as Accounting Standard (AS) 7, 'Construction Contracts.' The revised standard would come into effect in respect of all contracts entered into during accounting periods commencing on or after 1-4-2003 and will be mandatory in nature from that date. Accordingly, Accounting Standard (AS) 7, 'Accounting for Construction Contracts,' issued by the Institute in December 1983, will not be applicable in respect of such contracts.

Note 4: AS 20 is mandatory in nature in respect of enterprises whose equity shares or potential equity shares are listed on a recognized 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 disclose earnings per share in accordance with As 20. It has been clarified that every company, which is required to give information under Part IV of the Schedule VI of the Companies Act, 1956, should calculate and disclose earnings per share in accordance with AS 20, whether its equity shares or potential equity shares are listed on a recognized stock exchange in India or not.

Note 5: AS 21 is mandatory if an enterprise presents consolidated financial statements. In other words, the accounting standard does not mandate an enterprise to present consolidated financial statements but, if the enterprise presents consolidated financial statements in accordance with AS 21.
Note 6: As 22 comes into effect in respect of accounting periods commencing on or after 1-4-2001. It is mandatory in nature for:

(a) All the accounting periods commencing on or after 1-4-2001, in respect of the following:
   (i) Enterprises whose equity or debt securities are listed on a recognized stock exchange in India and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the board of directors’ resolution in this regard.
   (ii) All the enterprises of a group, if the parent presents consolidated financial statements and the Accounting Standard is mandatory in nature in respect of any of the enterprises of that group in terms of (i) above.

(b) All the accounting periods commencing on or after 1-4-2002, in respect of companies not covered by (a) above.

(c) All the accounting periods commencing on or after 1-4-2002, in respect of all other enterprises.

Note 7: AS 23 comes into effect in respect of accounting periods commencing on or after 1-4-2002. AS 23 is mandatory if an enterprise presents consolidated financial statements. In other words, if an enterprise presents consolidated financial statements, it should account for investments in associates in the consolidated financial statements in accordance with AS 23 from the date of its coming into effect, i.e., 1-4-2002.

Note 8: AS 24 will be mandatory in nature in respect of accounting periods commencing on or after 1-4-2004 for the following:
   (i) Enterprises whose equity or debt securities are listed on a recognized stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the board of directors’ resolution in this regard.
   (ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs.50 crore.

In respect of all other enterprises, the Accounting Standard will be mandatory in nature in respect of accounting periods commencing on or after 1-4-2005.

Note 9: AS 25 comes into effect in respect of accounting periods commencing on or after 1-4-2002. This AS does not mandate which enterprises should present interim financial reports, how frequently, or how soon after the end of an interim period. If an enterprise is required or elects to prepare and present an interim financial report, it should comply with this AS.
Note 10: AS 26 will come into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2003 and will be mandatory in nature from that date for the following:

(i) Enterprises whose equity or debt securities are listed on a recognized stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs.50 crore.

Note 11: AS 27 comes into effect in respect of accounting periods commencing on or after 1-4-2002. In respect of separate financial statements of an enterprise, this AS is mandatory in nature from that date. In respect of consolidated financial statements of an enterprise, this standard is mandatory in nature where the enterprise prepares and presents the consolidated financial statements in respect of accounting periods commencing on or after 1-4-2002.

Note 12: AS 28 will come into effect in respect of accounting periods commencing on or after 1-4-2004 and will be mandatory in nature from that date for the following:

(i) Enterprises whose equity or debt securities are listed on a recognized stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the board of directors' resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs.50 crore.

In respect of all other enterprises, the Accounting Standard will come into effect in respect of accounting periods commencing on or after 1-4-2005 and will be mandatory in nature from that date.

CONCLUSION

It is true that accounting is a language of business and it is a discipline by itself. The ultimate aim of this language is to communicate information for decision-making by the users through measuring financial performance and position in terms monetary figures. This measurement essentially requires the development of a well-founded theory, which goes in the name of conceptual framework in accounting. It is important to note that the development of conceptual framework formally by accounting theorists on one hand and informally by the accounting profession has been still explored without much success. Amidst this imbroglio, the accounting profession has taken the leading role by promulgating the accounting standards in place of accounting principles in the background of half-hearted attempt on the conceptual framework. In fact, the profession has substantially progressed in formalizing the accounting standards, the main objectives of which are to develop well defined accounting concepts and to reduce the number of alternative policy choices in the measurement process. With all the deficiencies, accounting standards continue to play a very dominant role in financial reporting scene at the international level as well as at the national levels.