Chapter - 3

Financial Reporting Practices followed in India and Abroad

3.1 Introduction

The financial sector plays an important role in the economy of any nation and more so in case of a developing country like India. Different sectors generally prepare quarterly, semi-quarterly and annual reports to provide necessary financial and non-financial information to the different user groups of the society. Normally in financial reporting, the profit and loss account and balance sheet occupy the central place. Financial statements provide information regarding sources and application of fund, showing trends of business, environmental report, information on human resources, charts, picture of production process etc. Previously, most of the companies in India published their financial statements as per legal formalities at the time of reporting while most of the other companies kept their records hidden at the time of publishing annual report. But in the era of globalised business, many MNC’s started their business in India with quarterly reporting practices. This has created a significant change in the Indian reporting system. In India, the financial statements prepared by different listed companies were generally regulated by some regulatory authorities like, The Companies Act, SEBI guidelines, Accounting Standards issued by the ICAI etc. For the purpose of computing complete and fair picture of financial statements, Indian Companies Act incorporated some basic rules and provisions. But the question is how much these law, regulations and Accounting Standards affect the financial reporting outcomes. Moreover, both the Companies Act and Accounting Standards issued by the ICAI have taken a more regulatory direction over time. The adoption of International Financial Reporting Standards (IFRS) around the world is occurring rapidly under the assumption that there would be benefits from having a uniform set of standards for financial reporting around the world so that cross-country comparisons of firms become easier and more transparent.

With a view to promoting better standards in presentation of information, the Institute of Chartered Accountants of India (ICAI) started a competition for the best-
presented accounts in 1958 and this competition is held annually thereafter. The company whose accounts are adjudged to be the best amongst them is awarded a Shield and the Companies, the accounts of which were adjudged the next best, are awarded Plaques. Normally the annual accounts of Companies that participate in the competition are scrutinised by a panel of judges appointed by the Council. The practice of appointment of judges by the Council continued till the year 1965. Since 1966, a Sub-Committee of the Research Committee has been functioning as the Shield Panel. This competition has encouraged the participating companies to improve the standard of presentation of their accounts. The prize-winning companies in the first competition in the year 1958-59 were:

- **The Tata Iron and Steel Company Ltd., Bombay** Shield
- **Indian Oxygen Ltd., Calcutta** Certificate of Merit
- **Mukand Iron & Steel Works Ltd., Bombay** Certificate of Merit
- **Air India International, Bombay** Certificate of Merit

In 1992, SEBI was formed to regularize stock exchange activities in India. However, presently SEBI has come forward to put much pressure on showing financial statements systematic and disclosure practices. Cash flow statement and Corporate Governance Report as a part of financial reporting is created by SEBI. Some Banking sector and voluntary organizations are also playing an important role in showing financial statement systematically.

Finally, it can be said that globalization is the major issue in determining the future of financial reporting. As financial and product markets become global, the need for a global set of accounting information to facilitate global transactions has really become overwhelming. This is clear in practice, both with the International Accounting Standards Board attempting to pull together one set of global standards and with the U.S. Financial Accounting Standards Board agreeing to an attempt to converge U.S. standards with international standards.

### 3.2 Corporate Legislation and Regulation of Accounting

There are two major aspects of measuring financial reporting practices in India. The first one is regarding provisions of the Companies Act and another one is the guidelines set up by the different regulatory bodies like SEBI, ICAI. Now if we go
through the Companies Acts which were issued several times for the purpose of better
reporting practices in the corporate sectors then we see that the Companies
Legislation in India has closely followed the Companies Legislation in England. Now
the different phases of the Companies Act can be summarized with the help of
following table.

<table>
<thead>
<tr>
<th>Companies Act issued in India (year-wise)</th>
<th>Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies Act, 1850</td>
<td>The first legislative enactment for registration of Joint Stock Companies based on the English Companies Act, 1844.</td>
</tr>
<tr>
<td>Companies Act, 1857</td>
<td>The concept of limited liability in India, closely following the English Companies Act, 1856.</td>
</tr>
<tr>
<td>Companies Act, 1858</td>
<td>The concept of limited liability extended to banking companies also.</td>
</tr>
<tr>
<td>Companies Act, 1866</td>
<td>Consolidating and amending the law relating to incorporations, regulation and winding-up of trading companies and other associations based on the English Companies Act, 1862.</td>
</tr>
<tr>
<td>Companies Act, 1882</td>
<td>The Act of 1866 was recast to bring the Indian Company Law in conformity with the various amendments and continued till 1913.</td>
</tr>
<tr>
<td>Companies Act, 1913</td>
<td>The Act of 1882 was replaced following the English Companies Consolidation Act, 1908. Till 1956, the business companies in India were regulated by this Act. Certain amendments were, however, made in the years 1914, 1915, 1920, 1926, 1930 and 1932.</td>
</tr>
<tr>
<td>Companies Act, 1936</td>
<td>The Act was extensively amended on the basis of English Companies Act, 1929.</td>
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<tr>
<td>Companies Act, 1956</td>
<td>At the end of 1950, the Government of Independent India appointed a Committee under the Chairmanship of Shri H.C.Bhaba to go into entire question of the revision of the Indian Companies Act, with particular reference to its bearing</td>
</tr>
</tbody>
</table>
on the development of Indian trade and Industry. The Committee examined a large number of witnesses in different parts of the country and submitted its reports in March 1952. This report was finally passed in the Parliament and named as Companies Act, 1956. This Act, once again largely followed the English Companies Act, 1948. The Companies Act, 1956 was undoubtedly a significant landmark in the development of Company Law in India. It consisted of 658 sections and fourteen schedules. The Act was enacted with the object of amending and consolidating the law relating to Companies and certain other associations. The main object of the Act was to provide protection to investors, creditors and public at large and at the same time leaving management free to utilize its resources and energies for the optimum output. The major changes that The Indian Companies Act, 1956 introduced over and above the Act of 1913 related to –

- The promotion and formation of Companies.
- Capital structure of Companies.
- Companies meetings and procedures.
- Presentation of Companies accounts, their audit, and the powers and duties of auditors.
- The inspection and investigation of the affairs of the Companies.
- The constitution of Board of Directors and the power and duties of Directors, Managing Directors and Managers, and
- The administration of Companies Law.


| Companies Bill 1993 | A Bill called the Companies Bill, was introduced in 1993 in Rajya Sabha in order to simplify and rationalize and to consolidate the law on the subject. |
In the light of the Satyam episode which erupted early in the year 2009, the Central Government moved the Company Law Board with an urgent petition for setting right the wrongs done by the management of Satyam, under various sections of the Companies Act, 1956.

The Union Govt. has introduced the Companies Bill 2009, [Bill No. 59 of 2009], in Lok Sabha revising the Companies Act 1956 by Shri Salman Khurshid, Minister of Corporate Affairs, Govt. of India including 28 chapters regarding incorporation of Companies, declaration and payment of dividend, accounts of companies, appointments and qualification of directors, meeting of board and its power, appointment and remuneration of managerial personnel, winding up, companies incorporated outside India, companies to furnish information and statistics and some miscellaneous items [SERVER5/BILL-2009/LS/3283LS/3283LS(CONTENT)].
The Bill aims at simplification of Company Law by-

(i) revising and modifying the Act in consonance with the changes in the National and International economy,
(ii) bringing about compactness of company law by deleting the provisions that had become redundant over time and by re-grouping the scattered provisions relating to specific subjects,
(iii) re-writing of various provisions of the Act to facilitate easy interpretation,
(iv) deleting the procedural aspects from the substantive law and provide to greater flexibility in rule making to enable adoption to the changing economic and technical environment.

At present, accounting is considered as one of the most important business function because the degree of regulation is increasing day by day. On the other hand, the rapidity of changes in forms, models, and types of accounting are quite advanced all over the globe, especially in the developed nations of the west. But India is trying hard to cope with all these changes.

3.2-1 Annual Reports

The annual reports of a Company can be regarded as a good opportunity to inform a large number of people about the company. Naturally, the company wants to keep in touch with their shareholders and other prospective investors. They also like to appeal potential creditors, clients and customers, and they may be increasingly concerned about maintaining the confidence of their own employees.

The contents of annual reports, as required by Law are the following:

- Notice of the Annual General Meeting (AGM) [with explanatory statement pursuant to Sec. 173(2) of the Companies Act 1956]
- Auditors Report on financial statement.
- Management Discussion and Analysis Report
- Income Statement or Profit & Loss Account (Part-II of Schedule VI)
- Balance Sheet (Part-I of Schedule VI)
- Cash flow statement AS 3, IAS 7
Disclosure of Accounting Policies and notes on Account AS 1

Scheduled forming Parts of Balance Sheet and Profit & Loss account.

Corporate Governance Report. [Pursuant to Clause 49 of the listing agreement with Indian Stock Exchanges]

Auditors Certificate on Corporate Governance.

Consolidated Financial Statement. AS 21

Scheduled forming Parts of Consolidated Financial Statement.

Balance Sheet Abstract and Companies general business profile (Part IV of Schedule VI)

Subsidiary Company Report (Sec. 212 of the Company Act, 1956)

Consolidated Cash Flow Statement

Auditors’ Report to the Board of Directors on Consolidated Financial Statement

Related Party Disclosure AS 18

Earning Per Share (Basic + Diluted) AS 20

CEO/CFO Certification of Financial Accounting and Reporting. (Sarbanes Oxley Act, 2002)

All the above items are explained in chapter-5.

3.2-2 Audit of Accounts

The audit of company accounts is a statutory requirement. The audit provides an external and objective check on the way in which the financial statements have been prepared and presented. The auditor shall make a report to the members of the company on the accounts examined by him. The annual accounts which a company presents must be accompanied by a report of statutory auditor.

As per the Companies Act 1956, the auditor shall make a report on the account examined by him and on balance sheet and profit and loss account and other documents, and the report shall state whether in his opinion and to the best of his information, the said accounts exhibit a true and fair view or not. Every auditor shall state whether, in his opinion, the profit and loss account and balance sheet are complied with the accounting standard and every auditor shall have right to access at all times to the books of accounts and the vouchers of the company whether kept at
the head office or elsewhere and shall be entitled to require from the officers such
information and explanations as the auditor may think necessary.

The power of the auditor to comment upon compliances with accounting
standards will undoubtedly enhance the quality of information, contained in the
annual report. This provision has been added by amending the act (1988).

3.2-3 Director’s Report

A report disclosing certain information by the directors of the company is
required by the Companies Act 1956 (Sec. 217). The annual report in the form of
Director’s Report is a valuable source of information to the shareholders and other
users. Thus, all key aspects are covered in the director’s report. The purpose of the
director’s report is to place before the shareholders the state of the company’s affairs
and salient features of its working results for the year covered, including future
prospects. The reports, though presented to shareholders, are also used by bankers,
debenture holders, Government and tax authorities. The directors’ report shall be read
with other reports at the ordinary meeting.

3.3 Professional Regulation

The annual accounts of the companies are prepared and presented in
compliance with provision of the corporate laws and the prevailing ‘Generally
Accepted Accounting Principle’ (GAAP). In India, Companies Act of 1956 has laid
down detailed provisions concerning preparation of annual accounts and reporting
thereof. In the matter of GAAP, the Institute of Chartered Accountants of India
(ICAI) plays an important role through- guidance notes, statement of accounting
matters, Accounting Standards, issued by it from time to time. The accounting
profession has exerted considerable influence on the development of accounting
regulation in most countries. The regulation by accounting profession was started in
India in the year 1914. The first Indian one for audit and authentication of accounting
was the Indian Accountancy Board that was constituted in 1932 in accordance with
the provision of the Co. (Amendment) Act 1930. The Board was merely an advisory
body to the Govt. and till the establishment of the Institute of Chartered Accountants
of India (ICAI), the power to audit was mainly in the hands of foreign professional
bodies. Since, 1949, the power has been shifted to ICAI. Since 1949, the ICAI has been developing accounting standards to be applicable to enterprises in India. For this purpose, the ICAI had formed various committees from time to time like Company Law Committee, Professional Development Committee, and Continuing Professional Education Committee etc. The format of Accounting Standard Board (ASB) is perhaps the major development in this respect.

The main function of the ASB is to formulate Accounting Standards so that such standards may be established by the ICAI in India. While formulating the Accounting Standards, the ASB will take into consideration the applicable laws, customs, usages and business environment prevailing in India.

The following are the objectives of the Accounting Standards Board:

✓ To conceive of and suggest areas in which Accounting Standards need to be developed.
✓ To formulate Accounting Standards with a view to assisting the Council of the ICAI in evolving and establishing Accounting Standards in India.
✓ To examine how far the relevant International Accounting Standard/International Financial Reporting Standard (see paragraph 3 below) can be adapted while formulating the Accounting Standard and to adapt the same.
✓ To review, at regular intervals, the Accounting Standards from the point of view of acceptance or changed conditions, and, if necessary, revise the same.
✓ To provide, from time to time, interpretations and guidance on Accounting Standards.
✓ To carry out such other functions relating to Accounting Standards.

3.3-1 The Role of ICAI in Convergence of Accounting Standards

Accounting has no meaning without standards. The use and application of standards in accounting gets so importance that it will not go wrong if it is termed as a legal discipline. By the time, the world has given accounting the certification of international discipline. So, for international discipline, accounting should have a single set of standards for all for harmonising the practice in a global scenario. But the
reality is that we still have various streams of accounting standards like US GAAP, UK GAAP, IAS, and Indian GAAP and so on. These different streams are the threat for accounting against its harmonisation of practices. Though the world has witnessed a lot of initiatives which have been taken to reduce the streams into one in recent years, still we cannot ensure the final sophistication in this regard.

The rapid globalisation of capital markets, however, has resulted in further acceleration in the global convergence of accounting standards, as national accounting standards are being converged with one another. The term convergence of Accounting Standards refers to the process of harmonisation of Accounting Standards. Accounting Standards are the set of established guidelines and rules framed by the regulatory bodies in different countries for measuring financial activities of the corporate sectors with the objectives of catering to the needs and aspiration of the diversified stakeholders about the profitability, financial condition and other performances, including the risk profile undertaken by a particular corporate entity.

In recent years, the use of International Financial Reporting Standards (IFRS) has been expanding. In many countries, like India, it is effective on and from 01.04.2011. In several other countries, their national standards are converging with IFRS. Now the question is why we need global Standards for Corporate disclosure?

Current accounting and reporting practices fall short of meeting the information needs of the capital markets and society in the 21st century. A critically important element in the solution to this problem is the convergence of Accounting Standards.

The convergence of accounting standards is a matter of decisive strategic importance to the future of global capital markets. High quality information is essential to high quality markets. All stakeholders who rely on high-quality markets need to understand the issues surrounding convergence form a point of view and take the time needed to participate in the global debate. The debate will have several phases. Currently the uppermost issue is the process for achieving high-quality converged standards, which will be substantially equivalent although not uniform in every detail. Later the issue is likely to be the possibility of achieving a single set of global high-quality standards and a single global standard setter.
The global convergence of accounting standards is a very positive development. The convergence of financial reporting and accounting standards is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital markets stakeholders.

It improves the ability of investors to compare investments on a global basis and thus lowers their risk of errors of judgment. It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements. It has the potential to create a new standard of accountability and greater transparency, which are values of importance to all market participants including regulators. It reduces operational challenges for accounting firms and focuses their value and expertise around an increasingly unified set of standards. It creates an unprecedented opportunity for standard setters and other stakeholders to improve the reporting model.

The use of different accounting frameworks in different countries, which require inconsistent treatment and presentation of the same underlying economic transactions, creates confusion for users of financial statements. This confusion leads to inefficiency in capital markets across the world. Therefore, increasing complexity of business transactions and globalization of capital markets call for a single set of high quality accounting standards. High standards of financial reporting underpin the trust investors place in financial and non-financial information. Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with IFRSs. Amongst others, countries of the European Union, Australia, New Zealand and Russia have already adopted IFRSs for listed enterprises.

The end of Enron (2001), Xerox (2002), WorldCom (2002), Global Trust Bank (2004), Satyam Computer Services (2009) episodes and similar transparency and governance failures that have occurred since 1992 while most of the collapses are directly related to traditional financial information that have put a question mark regarding the quality of corporate reporting of financial and non-financial items of the corporate annual reports of the Companies. This re-define the government’s role regarding the process of standard setting so that the corporations must report their financial condition to their shareholders through regular, consistent, and audited disclosures.

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Convergence with International Accounting Standards (IASs)/International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) has gained momentum in recent years all over the World. More than 100 countries currently require or permit the use of or have a policy of convergence with IFRSs. Certain other countries have announced their intention to adopt IFRSs from a future date, e.g., Canada and India from the year 2011, and China from the year 2008. Financial Accounting Standards Board (FASB) of USA and IASB are also working towards the convergence of the US GAAPs and the IFRSs.

The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is expected to actively promote the International Accounting Standards Board’s (IASB) pronouncements in the country with a view to facilitate global harmonisation of accounting standards. Accordingly, while formulating the Accounting Standards, the ASB will give due consideration to International Accounting Standards (IAS) issued by the International Accounting Standards Committee (predecessor body to IASB) or International Financial Reporting Standards (IFRS) issued by the IASB, as the case may be, and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India.

The Accounting Standards are issued under the authority of the Council of the ICAI. The ASB has also been entrusted with the responsibility of propagating the Accounting Standards and of persuading the concerned parties to adopt them in the preparation and presentation of financial statements. The ASB will provide interpretations and guidance on issues arising from Accounting Standards. The ASB will also review the Accounting Standards at periodical intervals and, if necessary, revise the same.

The Council of the Institute of Chartered Accountants of India (ICAI), at its meeting, held on May 2-4, 2006, expressed the view that the IFRSs may be adopted at least for listed and large entities, keeping in view the expected advantages such as saving in cost of capital for Indian entities raising capital abroad, saving in cost for such entities for not preparing separate set of financial statements, expected improvement in the image of Indian industry and the accounting profession in the eyes of the world, and increasing opportunities for Indian professionals abroad. In this
context, the Council also noted that in respect of the recently issued Accounting Standards, there are hardly any divergences from the corresponding IFRSs and, accordingly, India is already progressing on the path of full convergence with IFRSs. To consider various issues involved in detail, the Council referred the matter to the Accounting Standards Board. The Accounting Standards Board (ASB), at its meeting, held on August 11, 2006, considered the matter and supported the Council's view that there would be several advantages of converging with IFRSs. The Board was, however, of the view that there were various implications of converging with IFRSs and that certain issues were required to be addressed such as the conflicting legal and regulatory requirements related to financial statements, the technical preparedness of industry and accounting professionals, economic environment prevailing in the country, etc. The Board was also of the view that convergence with IFRSs would be an important policy decision as it would significantly affect not only the status of accounting discipline in the country but would also affect its economy.

Various countries of the world have adopted IFRSs for financial disclosure practices while others have been following their own Standards. In India, it is observed that the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) also entrusted with the task of integrating and revising the existing Indian Accounting Standards as far as possible. The ICAI should also play the role of educator/trainer to prepare its members for adoption of IFRSs from 1st April, 2011 by revising the curriculum of Chartered Accountancy Course, holding continuing professional education workshops, and preparation of educational material. The ICAI should initiate dialogue with the Government and regulators to bring about changes in laws and regulations before 1st April, 2011.

3.3-2 The Role of ICAI in the matter of Standards Setting

Standards are the written documents, policy documents issued by expert accounting body or by the Govt. or other regulatory body covering the aspect of recognition, measurement, treatment, presentation and disclosure of accounting transactions in the financial statements. A transparent disclosure approach indicates a company's commitment to good Corporate Governance and helps to build trust with shareholders.
and other stakeholders. Accounting Standards provide the framework of transparency in financial disclosure and fairness in business activities.

Accounting Standards in India are issued by the Institute of Chartered Accountants of India (ICAI). These Standards are also known as Indian Generally Accepted Accounting Principles (GAAP). Objectives of accounting standards are to standardize the diverse accounting practices with the view to eliminate to the extent possible the non-comparability of financial statements and add the reliability to the financial statements.

A financial reporting system supported by strong governance, high quality standards, and firm regulatory framework is the key to economic development. Indeed, sound financial reporting standards underline the trust that investors place in financial reporting information and thus play an important role in contributing to the economic development of a country. The Institute of Chartered Accountants of India (ICAI) as the accounting standards-formulating body in the country has always made efforts to formulate high quality Accounting Standards and has been successful in doing so.

One of the basic objectives of accounting standards setting is to maintain uniformity in the presentation of economic data contained in the annual accounts of the corporate enterprises. In other words, its aim is to harmonise the diversity in accounting policies and practices adopted by the different companies. Accounting Standards provide the valuable direction in the field of accounting and have brought about qualitative improvement in the financial reporting. The prime function of the accounting standard is to provide a creative framework or system through which qualitative and stakeholders oriented financial statements and disclosures are generated. With the basic objective of harmonising the varying accounting policies and practices in India, the Institute of Chartered Accountants of India (ICAI) has formed the Accounting Standard Board (ASB) in April, 22, 1977. These accounting Standards have assumed increased importance after the 1990s, as globalisation throws new challenges to enterprises by exposing them to the best. The Institute of Chartered Accountants of India (ICAI) is a statutory body established under the Chartered Accountants Act, 1949 (Act No.XXXVIII of 1949) for the regulation of the
profession of Chartered Accountancy in India. During its more than sixty years of existence, the Institute has achieved recognition as a premier accounting body in India for its contribution in the fields of education, professional development, maintenance of high accounting, auditing and ethical standards.

Practices vary among nations in the matter of construction and adoption of accounting standards. Many countries prefer to keep standards limited to any certain key areas of financial disclosures. Among the standards setting bodies in different countries - Financial Accounting Standard Board (FASB) in USA, The Accounting Standards Committee (ASC) in the UK, Accounting Standards Committee (ACSC) in Canada and the International Accounting Standards Committee (IASC) in UK are very prominent.

Globalisation is the major issue in determining the future of financial reporting. As financial and product markets become global, the need for a global set of accounting information to facilitate global transactions has really become overwhelming. This is clear in practice, both with the International Accounting Standards Board attempting to pull together one set of global standards and with the U.S. Financial Accounting Standards Board agreeing to an attempt to converge U.S. standards with international standards. Many accounting researchers and practitioners are spending a large amount of their time considering the implications of a set of global standards.

3.3-3 Framing Accounting Standards in India

Accounting Standards are written documents, policy documents issued by expert accounting body or by Government or other regulatory bodies covering the aspect of recognition, measurement, treatment, presentation and disclosure of accounting transactions in the financial statement. It was 1976 that, because of membership of IASC, the ICAI decided to seriously undertake the task of setting accounting standards in India. Accordingly on 21st April 1977, the ICAI constituted ASB. ASB finalized the procedure to be followed in the formulation of accounting standards published taking into consideration the international accounting standards, applicable laws, customs and the business environment.
Broadly the following procedures were adopted for formulating the Accounting Standards:

- Accounting Standard Board (ASB) shall determine the broad areas in which accounting standard need to be formulated and the priority in regard to the selection thereof.
- In the preparation of AS, ASB will be assisted by study groups constituted to consider specific subjects. In the formation of study groups, the members of the institute and other will make provision for wide participation.
- ASB will also hold a dialogue with the representation of the Government, Public sector undertakings, Industry and other organisations for ascertaining their views.
- On the basis of the work of the study groups and the dialogue with the organisation referred above, an exposure draft of the proposed standards will be prepared and issued for comments by members of the institute and the public at large.
- The draft of the proposed standards will include the following basic points:
  - A statement of the concept and fundamental accounting principles relating to the Standards.
  - Definitions of the term used in the standards.
  - The manner in which the accounting principles have been applied for formulating the standards.
  - The presentation and disclosure requirements in complying with the standards.
  - Class of the enterprises to which the standards will be effective.
  - Date from which the standards will be effective.
- After taking into consideration the comments received, the drafts of the proposed standards will be finalized by ASB and submitted to the council of the institute.
The council of the institute will consider the final draft of the proposed standards, and if found necessary, modify the same in consultation with ASB. The AS on the relevant subject will then be issued under the authority of the council.

As regards with issuing Accounting Standards, efforts are to be made so that there will be in conformity with the provisions of different laws and customs, usages and business environment in this country. The accounting standards relate to terms which are material in nature. Every now and then the institute will clear the applicability of a specific standard with regard to any limitations. The institute will make endeavours to persuade different authorities like the Govt., Industrial and business communities to adopt the different standards so that uniformity can be achieved in the presentation of financial statements. The basic matters are required to concentrate the task of formulation of accounting standards. It may be noted that the Accounting Standards are mandatory in all respect for every listed companies.

The ICAI has, so far, issued 32 Accounting Standards on various subjects to bring an overall qualitative improvement in the financial reporting by ensuring consistency and transparency as also providing authoritative interpretations on issues arising from accounting standards to the corporate world. These are as follows:

**AS 1 Disclosure of Accounting Policies**

The Standard was issued in 1979 and mandatory in nature from 01.04.1993. This Standard deals with the disclosure of significant accounting policies followed in preparing and present______

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AS 2 Valuation of Inventories

The Standard was originally issued in June 1981 and revised in 1999. The revised standard came into effect in respect of accounting periods commencing on or after 1.4.1999 and is mandatory in nature. This Statement deals with the determination of such value, including the ascertainment of cost of inventories and any write-down thereof to net realizable value. The Primary objective of accounting for inventories is the determination of the value at which inventories are carried in the financial statements until the related revenues are recognized. This Statement deals with the determination of such value, including the ascertainment of cost of inventories and any write-down thereof to net realizable value.

Inventories are assets held for sale in the ordinary course of business; in the process of production for such sale; or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

The financial statements should disclose the accounting policies adopted in measuring inventories, including the cost formula used; and the total carrying amount of inventories and its classification appropriate to the enterprise.

AS 3 Cash Flow Statements

The Standard was originally issued in June 1981 and was titled ‘Changes in Financial Position’ and revised in 1997. This Standard is mandatory in nature in respect of accounting periods commencing on or after 1-4-20043 for the enterprises which fall in any one or more of the following categories, at any time during the accounting period:

➢ 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.

➢ All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

Information about the cash flows of an enterprise is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize those cash flows. The economic decisions that are taken by users require an evaluation of the ability of
an enterprise to generate cash and cash equivalents and the timing and certainty of
their generation.

The Standard deals with the provision of information about the historical
changes in cash and cash equivalents of an enterprise by means of a cash Flow
statement which classifies cash flows during the period from operating, investing and
financing activities. An enterprise should disclose the components of cash and cash
equivalents and should present a reconciliation of the amounts in its cash flow
statement with the equivalent items reported in the balance sheet. An enterprise
should also disclose, together with a commentary by management, the amount of
significant cash and cash equivalent balances held by the enterprise that are not
available for use by it.

AS 4 Contingencies and Events Occurring After the Balance Sheet Date

The Standard was originally issued in November 1982 and revised in 1995. This
revised standard came into effect in respect of accounting periods commencing on or
after 1.4.1995 and is mandatory in nature. A contingency is a condition or situation,
the ultimate outcome of which, gain or loss, will be known or determined only on the
occurrence, or non-occurrence, of one or more uncertain future events. Events
occurring after the balance sheet date are those significant events, both favorable and
unfavorable, that occur between the balance sheet date and the date on which the
financial statements are approved by the Board of Directors in the case of a company,
and, by the corresponding approving authority in the case of any other entity.

An enterprise should disclose the following regarding the contingency:

✓ the nature of the contingency;
✓ the uncertainties which may affect the future outcome;
✓ an estimate of the financial effect, or a statement that such an estimate cannot
be made.

An enterprise should also disclose the events occurring after the balance sheet date
providing:

✓ the nature of the event;
✓ an estimate of the financial effect, or a statement that such an estimate cannot
be made.
AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

The Standard was originally issued in November 1982 and was titled ‘Prior Period and Extraordinary Items and Changes in Accounting Policies’ and revised in 1997. This revised standard comes into effect in respect of accounting periods commencing on or after 1.4.1996 and is mandatory in nature. This Statement should be applied by an enterprise in presenting profit or loss from ordinary activities, extraordinary items and prior period items in the statement of profit and loss, in accounting for changes in accounting estimates, and in disclosure of changes in accounting policies. This Standard also deals with, among other matters, the disclosure of certain items of net profit or loss for the period. These disclosures are made in addition to any other disclosures required by other Accounting Standards. But this Standard does not deal with the tax implications of extraordinary items, prior period items, changes in accounting estimates, and changes in accounting policies for which appropriate adjustments will have to be made depending on the circumstances.

AS 6 Depreciation Accounting

This Standard was issued in November 1982 and revised in 1995. Subsequently, in the context of insertion of Schedule XIV in the Companies Act in 1988, the Institute brought out a Guidance Note on Accounting for Depreciation in Companies which came into effect in respect of accounting periods commencing on or after 1st April, 1989. AS 6 is mandatory in respect of accounts for periods commencing on or after 1.4.1995.

Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortization of assets whose useful life is predetermined. Assessment of depreciation and the amount to be charged in respect thereof in an accounting period are usually based on the following three factors:

- historical cost or other amount substituted for the historical cost of the depreciable asset when the asset has been revalued;
expected useful life of the depreciable asset; and

estimated residual value of the depreciable asset.

The depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset. The depreciation method selected should be applied consistently from period to period. A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise. The following information should be disclosed in the financial statements:

✓ the historical cost or other amount substituted for historical cost of each class of depreciable assets;

✓ total depreciation for the period for each class of assets; and

✓ the related accumulated depreciation.

The following information should also be disclosed in the financial statements along with the disclosure of other accounting policies:

✓ depreciation methods used; and

✓ depreciation rates or the useful lives of the assets, if they are different from the principal rates specified in the statute governing the enterprise.

**AS 7 Construction Contracts**

This Standard was originally issued in December 1983 and was titled as 'Accounting for Construction Contracts'. It was revised in 2002 and came into effect from 01.04.2003 making mandatory in nature. Construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. The objective of this Standard is to prescribe the accounting treatment of revenue and costs associated with construction contracts. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. Therefore, the primary issue in
accounting for construction contracts is the allocation of contract revenue and contract costs to the accounting periods in which construction work is performed. This Statement uses the recognition criteria established in the Framework for the Preparation and Presentation of Financial Statements to determine when contract revenue and contract costs should be recognized as revenue and expenses in the statement of profit and loss. It also provides practical guidance on the application of these criteria. An enterprise should disclose:

- the amount of contract revenue recognised as revenue in the period;
- the methods used to determine the contract revenue recognised in the period;
- and
- the methods used to determine the stage of completion of contracts in progress.

**AS 8 Accounting for Research and Development**

AS 08 was withdrawn after introduction of AS 26 on Intangible Assets.

**AS 9 Revenue Recognition**

This Standard was issued in 1985. This Standard deals with the bases for recognition of revenue in the statement of profit and loss of an enterprise. The Statement is concerned with the recognition of revenue arising in the course of the ordinary activities of the enterprise from

- the sale of goods,
- the rendering of services, and
- the use by others of enterprise resources yielding interest, royalties and dividends.

Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration. In addition to the disclosures required by
Accounting Standard 01 on ‘Disclosure of Accounting Policies’ an enterprise should also disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

**AS 10 Accounting for Fixed Assets**

This Standard was issued in 1985 and mandatory in nature from 01.04.1993. Fixed asset is an asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business. Financial statements disclose certain information relating to fixed assets. In many enterprises these assets are grouped into various categories, such as land, buildings, plant and machinery, vehicles, furniture and fittings, goodwill, patents, trade marks and designs.

The following information should be disclosed in the financial statements:

- ✓ gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements;
- ✓ expenditure incurred on account of fixed assets in the course of construction or acquisition; and
- ✓ revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.

**AS 11 The Effects of Changes in Foreign Exchange Rates**

This Standard was originally issued in 1989 and revised in 1994. The standard has been revised again in 2003 and came into effect in respect of accounting periods commencing on or after 1-4-2004 and is mandatory in nature.

This Standard should be applied:

- in accounting for transactions in foreign currencies; and
- in translating the financial statements of foreign operations.
This Standard also deals with accounting for foreign currency transactions in the nature of forward exchange contracts. An enterprise should disclose:

✓ the amount of exchange differences included in the net profit or loss for the period; and

✓ net exchange differences accumulated in foreign currency translation reserve as a separate component of shareholders’ funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

When the reporting currency is different from the currency of the country in which the enterprise is domiciled, the reason for using a different currency should be disclosed. The reason for any change in the reporting currency should also be disclosed.

**AS 12 Accounting for Government Grants**

The Standard came into effect in respect of accounting periods commencing on or after 1.4.1992 and will be recommendatory in nature for an initial period of two years. Accordingly, the Guidance Note on ‘Accounting for Capital Based Grants’ issued by the Institute in 1981 shall stand withdrawn from this date. This Standard will become mandatory in respect of accounts for periods commencing on or after 1.4.1994. This Standard deals with accounting for government grants. Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, etc.

Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the enterprise. The following should be disclosed in the financial statements –

✓ the accounting policy adopted for government grants, including the methods of presentation in the financial statements;

✓ the nature and extent of government grants recognised in the financial statements, including grants of non-monetary assets given at a confessional rate or free of cost.
AS 13 Accounting for Investments

This Standard was originally issued in 1993 and came into effect for financial statements covering periods commencing on or after April 1, 1995. Investments are assets held by an enterprise for earning income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing enterprise. Assets held as stock-in-trade are not 'investments'. An investment may be of current investment or long term investment.

The following information should be disclosed in the financial statements:

- the accounting policies for determination of carrying amount of investments;
- classification of investments as specified;
- the amounts included in profit and loss statement significant restrictions on the right of ownership, realisability of investments or the remittance of income and proceeds of disposal;
- the aggregate amount of quoted and unquoted investments,
- giving the aggregate market value of quoted investments;
- other disclosures as specifically required by the relevant statute governing the enterprise.

AS 14 Accounting for Amalgamations

This Standard was issued in 1994 and came into effect in respect of accounting periods commencing on or after 1.4.1995 and will be mandatory in nature. This standard deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves. This standard is directed principally to companies although some of its requirements also apply to financial statements of other enterprises. There are two main methods of accounting for amalgamations, the pooling of interests method; and the purchase method.

For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation:

- names and general nature of business of the amalgamating companies;
- effective date of amalgamation for accounting purposes;
✓ the method of accounting used to reflect the amalgamation; and
✓ particulars of the scheme sanctioned under a statute.

For amalgamations accounted for under the pooling of interests method, the following additional disclosures should be made in the first financial statements following the amalgamation:

✓ description and number of shares issued, together with the percentage of each company’s equity shares exchanged to effect the amalgamation;
✓ the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

AS 15 Employee Benefits

This Standard was originally issued in 1995 and titled as ‘Accounting for Retirement Benefits in the Financial Statements of Employers’ and revised in 2005. The Standard was mandatory in nature from 1st April, 2006. Employee benefits are all forms of consideration given by an enterprise in exchange for service rendered by employees. The objective of this Standard is to prescribe the accounting and disclosure for employee benefits. Employee benefits include:

➤ short-term employee benefits, such as wages, salaries and social security contributions.

➤ post-employment benefits such as gratuity, pension, other retirement benefits, post-employment life insurance and post-employment medical care;

➤ other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve Employee benefits are all forms of consideration given by an enterprise in exchange for service rendered by employees. months after the end of the period, profit-sharing, bonuses and deferred compensation; and

➤ termination benefits.

Although this Standard does not require specific disclosures about short-term employee benefits, other Accounting Standards may require disclosures. For example,
where required by AS 18 Related Party Disclosures an enterprise discloses information about employee benefits for key management personnel.

**AS 16 Borrowing Costs**

This Standard came into effect in respect of accounting periods commencing on or after 1-4-2000 and is mandatory in nature. The objective of this Standard is to prescribe the accounting treatment for borrowing costs. Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds. Borrowing costs may include:

- interest and commitment charges on bank borrowings and other short-term and long-term borrowings;
- amortization of discounts or premiums relating to borrowings;
- amortization of ancillary costs incurred in connection with the arrangement of borrowings;
- finance charges in respect of assets acquired under finance leases or under other similar arrangements; and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

The financial statements should disclose the accounting policy adopted for borrowing costs and the amount of borrowing costs capitalized during the period.

**AS 17 Segment Reporting**

This Standard was issued 2000 and came into effect in respect of accounting periods commencing on or after 1.4.2001. This Standard is mandatory in nature in respect of accounting periods commencing on or after 1-4-2004 for the enterprises which fall in any one or more of the following categories, at any time during the accounting period:

- Enterprises whose equity or debt securities are listed whether in India or outside India.
- Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors’ resolution in this regard.
- Banks including co-operative banks.
Financial institutions.

Enterprises carrying on insurance business.

All commercial, industrial and business reporting enterprises,

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’.

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.

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

The enterprises which do not fall in any of the above categories are not required to apply this Standard. The objective of this Standard is to establish principles for reporting financial information, about the different types of products and services an enterprise produces and the different geographical areas in which it operates.

**AS 18 Related Party Disclosures**

This Standard was issued 2000 and came into effect in respect of accounting periods commencing on or after 1.4.2001. Related parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Related party transaction is a transfer of resources or obligations between related parties, regardless of whether or not a price is charged. The objective of this Standard is to establish requirements for disclosure of related party relationships and transactions between a reporting enterprise and its related parties.

This Standard should be applied in reporting related party relationships and transactions between a reporting enterprise and its related parties. The requirements of this Statement apply to the financial statements of each reporting enterprise as also to consolidated financial statements presented by a holding company.

Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a
similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of fixed assets. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure.

**AS 19 Leases**

This Standard came into effect in respect of all assets leased during accounting periods commencing on or after 1.4.2001 and is mandatory in nature from that date. A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures in relation to finance leases and operating leases. This Standard should be applied in accounting for all leases other than:

- ease agreements to explore for or use natural resources, such as oil, gas, timber, metals and other mineral rights; and
- licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights; and
- lease agreements to use lands.

This Standard applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. On the other hand, this Statement does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

**AS 20 Earnings Per Share**

This Standard came into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature from that date, in respect of enterprises whose equity shares or potential equity shares are listed on a recognised stock exchange in India. An enterprise which has neither equity shares nor potential equity shares which are so listed but which discloses earnings per share, should calculate and disclose earnings per share in accordance with this Standard from the aforesaid date.
The objective of this Standard is to prescribe principles for the determination and presentation of earnings per share which will improve comparison of performance among different enterprises for the same period and among different accounting periods for the same enterprise. The focus of this Standard is on the denominator of the earnings per share calculation. Even though earnings per share data has limitations because of different accounting policies used for determining ‘earnings’, a consistently determined denominator enhances the quality of financial reporting.

Basic earnings per share should be calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.

**AS 21 Consolidated Financial Statements**

This Standard came into effect in respect of accounting periods commencing on or after 1.4.2001. An enterprise that presents consolidated financial statements should prepare and present these statements in accordance with this Standard. The objective of this Standard is to lay down principles and procedures for preparation and presentation of consolidated financial statements. Consolidated financial statements are presented by a parent (also known as holding enterprise) to provide financial information about the economic activities of its group. These statements are intended to present financial information about a parent and its subsidiary(ies) as a single economic entity to show the economic resources controlled by the group, the obligations of the group and results the group achieves with its resources. This Statement should be applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control of a parent. This Standard should also be applied in accounting for investments in subsidiaries in the separate financial statements of a parent. In the preparation of consolidated financial statements, other Accounting Standards also apply in the same manner as they apply to the separate financial statements.
The enterprises should disclose in the financial statement-

- in consolidated financial statements a list of all subsidiaries including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held;

- in consolidated financial statements, where applicable:
  - the nature of the relationship between the parent and a subsidiary, if the parent does not own, directly or indirectly through subsidiaries, more than one-half of the voting power of the subsidiary;
  - the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period; and
  - the names of the subsidiary(ies) of which reporting date(s) is/are different from that of the parent and the difference in reporting dates.

**AS 22 Accounting for Taxes on Income**

This Standard came into effect in respect of accounting periods commencing on or after 1.4.2001. The objective of this Standard is to prescribe accounting treatment for taxes on income. A tax on income is one of the significant items in the statement of profit and loss of an enterprise. In accordance with the matching concept, taxes on income are accrued in the same period as the revenue and expenses to which they relate. Matching of such taxes against revenue for a period poses special problems arising from the fact that in a number of cases, taxable income may be significantly different from the accounting income. This divergence between taxable income and accounting income arises due to two main reasons. Firstly, there are differences between items of revenue and expenses as appearing in the statement of profit and loss and the items which are considered as revenue, expenses or deductions for tax purposes. Secondly, there are differences between the amount in respect of a particular item of revenue or expense as recognised in the statement of profit and loss and the corresponding amount which is recognised for the computation of taxable income.

This Standard should be applied in accounting for taxes on income. This includes the determination of the amount of the expense or saving related to taxes on
income in respect of an accounting period and the disclosure of such an amount in the financial statements.

**AS 23 Accounting for Investments in Associates in Consolidated Financial Statements**

This Standard was issued in 2001 and came into effect in respect of accounting periods commencing on or after 1-4-2002. The objective of this Standard is to set out principles and procedures for recognising, in the consolidated financial statements, the effects of the investments in associates on the financial position and operating results of a group. This Standard should be applied in accounting for investments in associates in the preparation and presentation of consolidated financial statements by an investor.

The investments under an associate should be accounted for in the financial statements as per equity method. The equity method is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. The carrying amount of the investment is adjusted thereafter, for the post-acquisition change in the investor’s share of the results of the operation of the investee. The investment in the associate is regarded as long-term investment and disclosed separately in the consolidated balance sheet.

**AS 24 Discontinuing Operations**

This Standard was issued in 2002 and came into effect in respect of accounting periods commencing on or after 1-4-2004. The objective of this Standard is to establish principles for reporting information about discontinuing operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise's cash flows, earnings-generating capacity, and financial position by segregating information about discontinuing operations from information about continuing operations.

Discontinuing operation is a component of an enterprise:

a. that the enterprise, pursuant to a single plan, is:

   ✓ disposing of substantially in its entirety, such as by selling the component in a single transaction or by de-merger or spin-off of ownership of the component to the enterprise's shareholders; or
disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or

terminating through abandonment; and

b. that represents a separate major line of business or geographical area of operations; and

c. that can be distinguished operationally and for financial reporting purposes.

AS 25 Interim Financial Reporting

This Standard was issued in 2002 and came into effect in respect of accounting periods commencing on or after 1-4-2002. If an enterprise is required or elects to prepare and present an interim financial report, it should comply with this Standard. Interim financial report means a financial report containing either a complete set of financial statements or a set of condensed financial statements (as described in this Statement) for an interim period. The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an enterprise's capacity to generate earnings and cash flows, its financial condition and liquidity. An interim financial report should include, at a minimum, the following components:

✓ condensed balance sheet;

✓ condensed statement of profit and loss;

✓ condensed cash flow statement; and

✓ Selected explanatory notes.

AS 26 Intangible Assets

This Standard was issued in 2002 and came into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2003 and is mandatory in nature from that date. The objective of this Standard is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Accounting Standard. This Statement requires an enterprise to
recognize an intangible asset if, and only if, certain criteria are met. The Statement also specifies how to measure the carrying amount of intangible assets and requires certain disclosures about intangible assets. An intangible asset is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. The financial statements should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

- the useful lives or the amortization rates used;
- the amortisation methods used;
- the gross carrying amount and the accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;
- a reconciliation of the carrying amount at the beginning and end of the period showing:

The financial statements should disclose the aggregate amount of research and development expenditure recognized as an expense during the period.

AS 27 Financial Reporting of Interests in Joint Ventures

This Standard came into effect in respect of accounting periods commencing on or after 1-4-2002. In respect of separate financial statements of an enterprise, this Standard 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 01.04.2002. The objective of this Standard is to set out principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors. This Standard should be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. Joint ventures take many different forms and structures. This Statement identifies three broad types - jointly controlled operations, jointly controlled assets and jointly
controlled entities - which are commonly described as, and meet the definition of, joint ventures. The following characteristics are common to all joint ventures:

- two or more venturers are bound by a contractual arrangement; and
- the contractual arrangement establishes joint control.

A venturer should disclose in the financial statements the aggregate amount of the contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities. They should disclose a list of all joint ventures and description of interests in significant joint ventures. In respect of jointly controlled entities, the venturer should also disclose the proportion of ownership interest, name and country of incorporation or residence. A venturer should also disclose, in its separate financial statements, the aggregate amounts of each of the assets, liabilities, income and expenses related to its interests in the jointly controlled entities.

AS 28 Impairment of Assets
This Standard was issued in 2002 and came into effect in respect of accounting periods commencing on or after 1-4-2004. The objective of this standard is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Statement requires the enterprise to recognise an impairment loss. This Statement also specifies when an enterprise should reverse an impairment loss and it prescribes certain disclosures for impaired assets.

As per this Standard the financial statements should disclose:

- the amount of impairment losses recognised in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are included;

- the amount of reversals of impairment losses recognised in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are reversed;
➢ the amount of impairment losses recognised directly against revaluation surplus during the period; and

➢ the amount of reversals of impairment losses recognised directly in revaluation surplus during the period.

**AS 29 Provisions, Contingent Liabilities and Contingent Assets**

This Standard was issued in 2003 and came into effect in respect of accounting periods commencing on or after 1-4-2004 and mandatory in nature from that date. The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. The objective of this statement is also to lay down appropriate accounting for contingent assets.

A provision is a liability which can be measured only by using a substantial degree of estimation.

A contingent liability is a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or a present obligation that arises from past events but is not recognised because:

✓ it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

✓ a reliable estimate of the amount of the obligation cannot be made.

A contingent asset is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the enterprise.

This Standard should be applied in accounting for provisions and contingent liabilities and in dealing with contingent assets, except:

➢ those resulting from financial instruments that are carried at fair value;

➢ those resulting from executory contracts, except where the contract is onerous;

➢ those arising in insurance enterprises from contracts with policy-holders; and

➢ those covered by another Accounting Standard.
AS 30 Financial Instruments: Recognition and Measurement

Accounting Standard (AS) 30 came into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. This Accounting Standard will become mandatory in respect of accounting periods commencing on or after 1-4-2011 for all commercial, industrial and business entities except to a Small and Medium-sized Entity. The objective of this standard is to establish principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in Accounting Standard AS 31, Financial Instruments: Presentation. Requirements for disclosing information about financial instruments are in Accounting Standard (AS) 32, Financial Instruments: Disclosures.

AS 31 Financial Instruments: Presentation

Accounting Standard (AS) 31, Financial Instruments: Presentation, issued by the Council of the Institute of Chartered Accountants of India, came into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. This Accounting Standard will become mandatory in respect of accounting periods commencing on or after 1-4-2011 for all commercial, industrial and business entities except to a Small and Medium-sized Entity.

The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset. The principles in this Standard complement the principles for recognizing and measuring financial assets and financial liabilities in Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurement and for disclosing information about them in Accounting Standard (AS) 32, Financial Instruments: Disclosures.
AS 32 Financial Instruments: Disclosures

Accounting Standard (AS) 32, Financial Instruments: Disclosures, issued by the Council of the Institute of Chartered Accountants of India, came into effect in respect of accounting periods commencing on or after 1-4-2009 and will be recommendatory in nature for an initial period of two years. This Accounting Standard will become mandatory in respect of accounting periods commencing on or after 1-4-2011 for all commercial, industrial and business entities except to a Small and Medium-sized Entity.

3.3-4 International Accounting Standard (IAS) and Indian Standards

Formulation of proper accounting standards is a vital step in developing accounting as a language of business. Accounting standards are concerned with the system of measurement and disclosure rules for preparation and presentation of financial statements through which useful information is furnished to different users. In fact, such steps are designed and prescribed so as to enhance the quality of financial reporting. The standards setting bodies of the different countries have undertaken research work in the field of accounting standards considering the need for harmonisation of accounting practices, norms of disclosures and transparency.

In India, ASB should do more research work to frame accounting standards in line with the IASC which is greatly needed to bring uniformity in accounting practices at the international level, especially in the perspective of globalization and internationalisation of economic activities. The harmonisation of accounting standards will assist the managers and investor in making the decision more efficient. Accounting standards will also help in avoiding the misunderstanding and confusion among the users in the analysis and interpretation of financial statements.

The composition of the ASB is broad-based with a view to ensuring participation of all interest-groups in the standard-setting process. These interest groups include industry, representatives of various departments of government and regulatory authorities, financial institutions and academic and professional bodies. Industry is represented on the ASB by their apex level associations, viz., Associated Chambers of Commerce (ASSOCHAM), Federation of Indian Chambers of Commerce and Industry (FICCI) and Confederation of Indian Industries (CII). As
regards government departments and regulatory authorities, Reserve Bank of India, Ministry of Company Affairs, Central Board of Direct Taxes, Comptroller & Auditor General of India, Controller General of Accounts, Securities and Exchange Board of India and Central Board of Excise and Customs are represented on the ASB. Besides these interest-groups, representatives of academic and professional institutions such as Universities, Indian Institutes of Management, Institute of Cost and Works Accountants of India and Institute of Company Secretaries of India are also represented on the ASB. Apart from these interest-groups, members of the Central Council of ICAI are also on the ASB.

While framing accounting standards in India, the ICAI gives due consideration to the accounting standards issued by the International Accounting Standard Committee (IASC).

To maintain uniformity in accounting principles throughout the world, the International Accounting Standard Committee (IASC) came into being on 25th June, 1973 when 16 accounting bodies from nine nations – USA, Canada, UK, Australia, France, Germany, Japan, Mexico and Netherlands signed the agreement and constitution for its formation. The committee headquartered is at London. International Accounting Standard Committee has laid down standards regarding the different accounting matters. In 1983, the number of Board members increased to seventeen.

This IASC was renamed as International Accounting Standard Board (IASB) after reconstitution in 2001. Its main objective is to promote convergence of accounting principles that are used by business and other organisations for financial reporting around the world.

The objective of IASB, as stated in its new constitutions (IASC, 2001) are:

- To develop in public interest, a single set of high quality, understandable and enforceable global accounting standard that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world’s capital market and other users to make economic decisions.
- To promote the use and rigorous application of those standards and
➢ To bring about convergence of national accounting standards and international accounting standards to high quality solutions.

Now chronologically the development of IASB can be analysed below:

1973: Agreement to establish IASC is signed by representatives of the professional accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom/Ireland and United States.


1982: IASC Board expanded up to 17 members.

1995: European Commission supports the agreement between IASC and International Organization of Securities Commissions (IOSCO) to complete core standards and concludes that IASs should be followed by European Union multinationals.

1996: US SEC announces its support of IASC’s objective to develop financial statements for the purpose of cross border offerings.

1997: Standing Interpretations Committee (SIC) was formed with 12 voting members with a mission to develop interpretations of IASs for final approval by IASC.

1998: IFAC/IASC membership expanded to 140 accountancy bodies in 101 countries.

1999: G7 Finance Ministers and International Monetary Fund urged support for IASs to “strengthen the international financial architecture”.

2000: IOSCO recommends that its members allow multinational issuers to use IASC standards in cross-border offerings and listings.

2001: On 1 April 2001, the new IASB assumes its standard-setting responsibilities from the IASC.


2003: First final IFRS and first IFRIC draft Interpretation are published. Improvements project is completed – major revisions to 14 IASs.

2006: IASB/FASB update agreement on convergence.

2008: IOSCO issues statement urging entities to clearly state whether they comply in full with IFRSs as adopted by the IASB.

2009: IASB is expanded to 16 members (including maximum 3 part-time) and geographical mix established.
The Structure of IASB can be drawn as follows:

1. Monitoring Board
   Approve and oversee trustees

2. IASC Foundation
   22 trustees. Appoint, oversee, raise funds.

3. Board
   16 members (maximum 3 part-time).
   Set technical agenda, approve Standards, exposure drafts and Interpretations.

4. Standards Advisory Council
   Approx 40 members

5. International Financial Reporting Interpretations Committee 14 members

Key:
- Reports to
- Appoints
- Advices

Working groups for major agenda projects

Fig. 3.1
In March 2001, the IASC foundation, a non-for-profit corporation, incorporated in the state of Delaware, USA, was formed and is the parent entity of the IASB, which is based in London, the UK. The new structure has the following main features- the IASC foundation is an independent organisation having two main bodies, the trustees, coming from the accounting and financial community, and the IASB, as well as a Standard Advisory Council and the Standing Interpretation Committees. The IASC foundation trustees appoint the IASB members, exercise oversight, and raise the funds needed, whereas, IASB has sole responsibility for setting accounting standards. The Standards Advisory Council provides a formal vehicle for groups and individuals having diverse geographic and functional background to give advice to the IASB.

Now the trustees are undertaking a comprehensive review of the structure and constitution of the IASB. The first part of the review was completed in January 2009 and important amendments to the IASCF (IASC Foundation, Parent body of IASB) constitution were announced (effective 1 February 2009), including the formation of a Monitoring Board, the expansion of the IASB from 14 to 16 members (with up to three part-time), and a specified geographical mix for the IASB. The second part of the review (which will cover, among other things, due process, funding, scope of IFRSs, and the SAC), will be concluded during 2009 [IFRS in your pocket, 2009].

The Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India are both members of the IASC. In April, 1977, the Council of Institute of Chartered Accountants if India established an Accounting Standard Board (ASB) to formulate accounting standard taking into consideration the International Accounting Standards, applicable laws, customs and the business environment. International Accounting Standards issued by the IASC and the corresponding Indian Accounting Standards issued by the ICAI are-
<table>
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<tr>
<td>IFRS 1</td>
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Corresponding IAS has been withdrawn since the matter is now covered by IAS 32, 39 and 40 and IFRS 7

Additionaly, the International Organization of Securities Commission (IOSCO) which is the representative body of the world’s securities markets regulators, decided in May, 2000 to endorse the International Accounting Standards (IASs), while still allowing national regulators to require certain supplementary treatments (reconciliation, disclosure and interpretation). This decision followed an agreement during 1995 between IASC and IOSCO to work on a program of “core standards”, which could be used by publicly issued enterprises when offering securities in foreign jurisdictions.

3.3-5 International Financial Reporting Standard (IFRS)

A financial reporting system supported by strong governance, high quality standards and a sound regulatory framework is the key to economic development of any country. As the forces of globalisation prompt more and more countries to open their doors to foreign investment and as businesses expand across borders, both the public and private sectors are increasingly recognising the benefits of having a commonly understood financial reporting framework, supported by strong globally accepted standards. Hence there is a need for a universal financial accounting standard that is harmonised and adapted globally. So that companies will not face multiple accounting
standards. It implies that all the accounting standard-setters worldwide come to the same platform and agree on a single standard. The benefits of a global financial reporting framework are numerous and include:

• Greater comparability of financial information for investors;

• Greater willingness on the part of investors to invest across borders;

• Lower cost of capital;

• More efficient allocation of resources; and

• Higher economic growth.

So, for this purpose the US Security and Exchange Commission (SEC) issued a proposal to the foreign private issuers to file financial statements prepared in accordance with the English-language version of the International Financial Reporting Standards (IFRS) as published by the International Accounting Standard Board (IASB). Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). IASs were issued between 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). In April 2001 the IASB adopted all IAS and continued their development, calling the new standards IFRS.

Advantages of a Single Set of accounting standard, like IFRS, are that it reduces cost of capital because the same standards will apply regardless of location. The time and expense of applying different accounting standards will be greatly reduced with the use of one consistent reporting standard. In essence, it is like using the same language. So the translation costs are eliminated. Secondly, the information for decision making is enhanced by a single set of accounting standards. A similar basis for comparison is established in the minds of the different user groups of the financial statements.

IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Malaysia, Pakistan, GCC countries, Russia, South Africa, Singapore and Turkey. The adoption of IFRS around the world is occurring rapidly under the assumption that there will be benefits from having a uniform set of standards for financial reporting around the world so that cross country comparisons of firms are easier and more transparent. The Institute of Chartered Accountants of
India (ICAI) has announced that IFRS will be mandatory in India for financial statements for the periods beginning on or after 1st April, 2011. This will be done by revising existing accounting standards to make them compatible with IFRS.

IFRS is on schedule in Canada. The Canadian regulatory and taxation authorities are very well aware of the move to convergence and the reasons for it. After the changeover, it is likely that the financial statements will continue for several years to describe the basis of reporting as “Canadian GAAP.” This will probably be necessary because of various statutory and regulatory requirements. However, the objective is that Canadian GAAP be substantially the same as IFRS in 2011.

To implement a ‘financial reporting strategy’ adopted by the European Commission (EC) in June 2000, the European Union (EU) in 2002 approved an Accounting Regulation requiring all EU companies listed on a regulated market (about 8,000 companies in total) to follow IFRSs in their consolidated financial statements starting in 2005.

Australian reporting entities have already been adopted Australian equivalents of International Financial Reporting Standards (IFRS) for reporting periods commencing on or after 1st January 2005. The introduction of IFRS in Australia has changed the existing accounting standards in relation to the recognition and measurement of assets, liabilities, equity, revenue and expenses.

In November 2007, the Security Exchange Commission (SEC) voted to allow foreign private issuers to submit financial statements prepared using IFRSs as issued by the IASB without having to include a reconciliation of the IFRS figures to US GAAP. This new rule applies to financial statements covering years ended after 15 November 2007.

Chile is phasing in IFRSs for listed companies starting in 2009. Listed companies and banks in Brazil are required to start using IFRSs in 2010. The Mexican Banking and Securities Commission have announced that all listed companies are required to use IFRSs starting in 2012. The accounting professional body in Argentina has adopted a plan, subject to government approval, to require IFRSs for listed companies starting in 2011, with IFRSs optional for unlisted companies. IFRSs are already required in a number of other Latin American countries, including Ecuador and Venezuela. (IFRS in your pocket 2009, p. 28)
3.3-5.a IFRSs issued

Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). IASs were issued between 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). In April 2001 the IASB adopted all IAS and continued their development, calling the new standards IFRS. International Financial Reporting Standards issued by the IASB are:

**IFRS 1 First time adoption of International Financial Reporting Standard**

The IFRS 1 was originally issued in 2003 and revised so many times. Finally this standard was revised in Jan. 2010 and effective from annual periods beginning on or after 1 July 2010. An entity shall prepare an opening IFRS balance sheet at the date of transition to IFRSs. This is the starting point for its accounting under IFRSs. An entity need not present its opening IFRS balance sheet in its first IFRS financial statements. The objective of the standard was to prescribe the procedures when an entity adopts IFRSs for the first time as the basis for preparing its general purpose financial statements.

**IFRS 2 Share Based Payment**

The IFRS 2 was originally issued in 2004 and revised so many times. Finally this standard was revised in June 2009 and effective from annual periods beginning on or after 1 Jan. 2010. The IFRS requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity. There are no exceptions to the IFRS, other than for transactions to which other Standards apply. The objective of the standard was to prescribe the accounting for transactions in which an entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity’s shares or other equity instruments of the entity.

**IFRS 3 Business Combinations**

The IFRS 3 was issued in 2004 and revised in 2008 and effective from annual periods beginning on or after 1 July 2009. A business combination is a transaction or event in which an acquirer obtains control of one or more businesses. A business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return directly to investors or other owners,
members or participants. The IFRS requires the acquirer to disclose information that enables users of its financial statements to evaluate the nature and financial effect of business combinations that occurred during the current reporting period or after the reporting date but before the financial statements are authorised for issue. After a business combination, the acquirer must disclose any adjustments recognized in the current reporting period that relate to business combinations that occurred in the current or previous reporting periods.

**IFRS 4 Insurance Contracts**
The IFRS 3 was issued in 2004 and revised in 2005 and effective from annual periods beginning on or after 1 July 2006. The objective of the standard was to prescribe the financial reporting for insurance contracts until the IASB completes the second phase of its project on insurance contracts. The IFRS requires disclosure to help users understand:

- the amounts in the insurer’s financial statements that arise from insurance contracts.
- the amount, timing and uncertainty of future cash flows from insurance contracts.

**IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**
The IFRS 5 was originally issued in 2004 and revised so many times. Finally this standard was revised in April 2009 and effective from annual periods beginning on or after 1st Jan. 2010. The objective of the standard was to prescribe the accounting for non-current assets held for sale, and the presentation and disclosure of discontinued operations.

**IFRS 6 Explorations for and Evaluation of Mineral Assets**
The IFRS 6 was issued in 2004 and effective from annual periods beginning on or after 1st Jan. 2006. The objective of the standard was to prescribe the financial reporting for the exploration for and evaluation of mineral resources until the IASB completes a comprehensive project in this area. An entity shall disclose information that identifies and explains the amounts recognized in its financial statements arising from the exploration for and evaluation of mineral resources.
IFRS 7 Financial Instruments: Disclosures
The IFRS 7 was issued in 2005 and revised in March 2009 and effective from annual periods beginning on or after 1st Jan. 2009. The objective of the standard was to prescribe disclosures that enable financial statement users to evaluate the significance of financial instruments to an entity, the nature and extent of their risks, and how the entity manages those risks.

IFRS 8 Operating Segments
The IFRS 8 was originally issued in 2006 and revised in April 2009 and effective from annual periods beginning on or after 1st Jan. 2010. An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available.

IFRS 9 Financial Instruments
The IFRS 9 was issued in Nov. 2009 and effective from annual periods beginning on or after 1st Jan. 2013.

The convergence of IFRS with other Accounting Standard is not free from dissimilarities. It is not surprising that many people who follow the development of worldwide accounting standards today might be confused. Convergence is a high priority on the agendas other countries around the world and the International Accounting Standards Board (IASB) and “convergence” is a term that suggests an elimination or coming together of differences. But how the differences will be eliminated that’s a question mark for every one.

3.4 Role of Government and other Regulatory Bodies
Financial Reporting in India through the development of accounting regulations with the help of setting accounting standards and formation of companies Act is a tough work and for that purpose some governmental, semi-governmental, and voluntary bodies are playing important role in this respect. The voluntary bodies like Department of Public Enterprises (DPE), Security Exchange Board of India (SEBI), Indian Chamber of Commerce, Indian Commerce Association, Indian Accounting
Association and Indian Accounting Association Research Foundation plays important role in contributing to the development of accounting and reporting in India by adopting seminar work, encouraging research work, offering suggestions for suitable changes in law and accounting principles etc.

The DPE, set up in 1965 under the department of Expenditure, Ministry of Finance, provide policy and overall guidance to the Public Enterprises in India. The DPE is a governmental agency and this agency has the power to issue clarifications to the legal provision and to enforce the same in companies. Since its inception, it has been issuing circular and guidelines for accounting regulation in India.

Stock Exchanges was introduced in India in the year 1887 i.e., more than a hundred years ago. But now the Stock Exchanges have got the statutory right to set out rules for the admission of shares for listings and to compel the companies to enter into listing agreements. This listing agreement is considered in each country as most influential aspect of regulation by Stock Exchanges. Two recent developments in Indian capital market have been the incorporation of OTCEI (Over and Counter Exchanges of India) and NSE (National Stock Exchange) in the year 1992 and 1993 respectively as started by the Union Finance Minister Dr. Manmohan Singh. Since 1992, the SEBI (Securities and Exchange Board of India) has brought into a new dimension in the field of Securities transaction in India. With the responsibility of regulating the primary as well as secondary markets the SEBI has taken a number of steps in the meantime in respect of accounting and reporting practices.

The Banking Regulation Act (1949) empowers the Reserve Bank of India (RBI) to regulate financial reporting of the financial sector, including banks and financial institutions. One of the Schedules to the Banking Regulation Act prescribes formats for general purpose financial statements (e.g. balance sheet, and profit and loss accounts) and other disclosure requirements. Banks are also required to comply with requirements of the Companies Act (1956), provided they are consistent with the Banking Regulation Act. The RBI has issued circulars requiring banks to comply with the accounting standards issued by ICAI.

The Companies Act (1956) provides the basic requirements relating to financial reporting of all companies incorporated in India. The Act requires the
preparation, presentation, publication, and disclosure of financial statements, as well as an audit of all companies by a member-in-practice certified by the Institute of Chartered Accountants of India (ICAI). Under the Act, the Central Government has the power, by notification in the official Gazette, to constitute the National Advisory Committee on Accounting Standards (NACAS), to advise the Central Government on the formulation and laying down of accounting standards for adoption by companies or class of companies. For this purpose, the Act requires that NACAS has to consider accounting standards issued by the ICAI when recommending accounting standards to the Government. The Companies Amendment Act, 1974 enlarged the scope of services of a company secretary. His duties and responsibilities initially were ministerial or administrative in nature towards Board of Directors, towards stakeholders etc.

The ICAI requires its members to ensure compliance with all the accounting standards it issues while discharging their attest function. Further, the ICAI members are required to follow a detailed Code of Ethics, as prescribed under the Chartered Accountants Act, (1949). The ICAI, with a view to further improving and strengthening financial reporting practices in India, has also constituted the Financial Reporting Review Board (FRRB). The FRRB reviews general purpose financial statements of certain selected enterprises with a view to check compliance, with the accounting standards. In cases, where non-compliance is observed, an appropriate action is taken by the ICAI and/or it is referred to an appropriate authority for the action. This step definitely helps in improving the quality of financial reporting in the country.

Thus, it can be concluded that the different regulating authorities in India whether Governmental or Private agency played an important role in the preparation and presentation of financial statements.

3.5 International Scenario

The corporate financial reporting provides accounting information to users across the globe to facilitate decision making. The growth of corporate enterprises and their dominant role in the society have given rise to the need for greater communication by management to various stakeholders like investors and creditors, both potential and exiting, employees, consumers, government, analysts, legal experts
and the general public. The informational needs of users have been recognized even by law in many countries. Consequently, the companies are required to maintain, prepare and publish accounts and annual reports as prescribed by their country’s statutes that essentially enable the users to take sound economic decisions and rational judgment. At present there are major international differences in financial reporting practices. International analysts and investors would like to compare financial statements based on similar accounting standards, and this had led to the growing support for an internationally accepted set of accounting standards for cross border filings. Now it is possible for a country to improve its own accounting by observing how other countries have been reacting to problems which may not differ significantly across the countries. Now, the idea of global harmonization of accounting standards is on focus. Harmonisation of accounting standards seems to be without alternative in fact, it seems to be inevitable. Accounting Standards are accounting rules or principles on the basis of which accountants prepare accounts and reports of business organization. Experience shows that companies using accounting standards raise capital easily from outside because investors both domestic and foreign repose faith in companies who are using accounting standards. Harmonisation of accounting standards used by different countries is necessary for meaningful comparison of annual reports and accounts that will enable the users of such reports to make sound investment decisions. Though, the EU prescribes its own accounting standards for use by its member countries, it has made mandatory the use of the IFRS of IASB from the year 2005. Efforts are underway in Japan, China, Canada, and other countries for adoption and/or convergence with IFRS.
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