

## CHAPTER-5

### ACCOUNTING STANDARDS IN INDIA & IFRS

#### MEANING OF IFRS

IFRS stands for International Financial Reporting Standards. It is a set of accounting standards developed by the International Accounting Standards Board (IASB) to provide a globally consistent framework for financial reporting.

#### **THE OBJECTIVES OF IFRS ARE AS FOLLOWS:**

1. **Standardization:** IFRS aims to establish a single set of high-quality accounting standards that can be used by companies across different countries. It helps to ensure consistency and comparability of financial statements, making it easier for investors and analysts to understand and compare the financial performance of companies operating in different jurisdictions.
2. **Transparency:** IFRS seeks to enhance the transparency and reliability of financial reporting. By requiring companies to provide relevant and reliable information in their financial statements, it promotes a higher level of accountability and helps users of financial statements make informed decisions.
3. **Global Comparability:** One of the key objectives of IFRS is to facilitate the comparison of financial information across different countries. By providing a common language of financial reporting, it enables investors, analysts, and other stakeholders to assess the financial performance and position of companies operating in various jurisdictions, irrespective of differences in accounting practices.
4. **Decision-Making:** IFRS aims to provide useful and timely financial information that can assist investors, creditors, and other users in making sound economic decisions. The standards focus on relevance, reliability, and understandability of financial statements, helping users evaluate the financial health and future prospects of companies.
5. **Capital Markets Integration:** IFRS plays a crucial role in promoting the integration of global capital markets. By facilitating the comparability and transparency of financial information, it helps attract international investment and lowers the cost of capital for companies operating in different countries.

Overall, the main objectives of IFRS are to enhance the quality and consistency of financial reporting, provide reliable information to stakeholders, and facilitate global comparability and understanding of financial statements.

### **BENEFITS OF IFRS:**

The adoption and implementation of International Financial Reporting Standards (IFRS) offer several benefits to companies, investors, and the global financial community. Some of the key benefits of IFRS are:

1. **Global Comparability:** IFRS provides a common set of accounting standards that enables companies to prepare and present their financial statements in a consistent manner across different jurisdictions. This comparability enhances the transparency and allows for easier comparison of financial information between companies operating in different countries. It facilitates international investment and promotes efficient allocation of capital.
2. **Improved Transparency and Disclosure:** IFRS promotes transparency by requiring companies to provide more detailed and comprehensive financial information. It enhances the disclosure requirements for various transactions and events, ensuring that users of financial statements have access to relevant and reliable information to make informed decisions.
3. **Enhanced Financial Reporting Quality:** IFRS focuses on the fair presentation of financial statements based on a principles-based approach. This approach emphasizes substance over form and encourages companies to provide a true and fair view of their financial performance and position. By improving the quality of financial reporting, IFRS helps reduce the information asymmetry between companies and their stakeholders.
4. **Facilitation of Cross-Border Activities:** The use of IFRS simplifies the financial reporting process for companies engaged in cross-border activities such as mergers, acquisitions, and raising capital in international markets. It eliminates the need for companies to prepare separate financial statements under different accounting standards, reducing compliance costs and administrative burdens.
5. **Increased Investor Confidence:** The adoption of IFRS instills greater confidence among investors and analysts due to the standardized and transparent financial reporting. Investors can compare financial information more easily, make more

accurate assessments of companies' financial performance and risk profiles, and make better-informed investment decisions.

6. **Improved Access to Capital Markets:** Companies that adopt IFRS often experience increased access to global capital markets. Many international stock exchanges require or encourage the use of IFRS for listing and reporting purposes. By adhering to a widely accepted set of accounting standards, companies can attract a broader range of investors and potentially lower the cost of capital.
7. **Harmonization of Accounting Practices:** IFRS promotes the convergence of accounting practices across different countries and reduces the diversity of accounting treatments. This harmonization simplifies financial reporting for multinational companies and improves the consistency and comparability of financial information worldwide.

It is important to note that the benefits of IFRS may vary depending on the specific circumstances and characteristics of each company or organization. Additionally, the successful adoption and implementation of IFRS require proper training, education, and support from regulators, standard-setting bodies, and professional organizations.

### **STANDARD SETTING PROCESS:**

**Meaning:** The standard-setting process refers to the systematic and collaborative approach used by accounting standard-setting bodies to develop and establish accounting standards. The following steps generally outline the standard-setting process:

- **Identification of the Need for a Standard:** The standard-setting body, such as the International Accounting Standards Board (IASB), identifies the need for a new accounting standard or a revision of an existing standard. This need may arise from changes in business practices, emerging issues, or gaps in existing standards.
- **Project Initiation:** Once the need for a standard is identified, the standard-setting body initiates a project to address the issue. This involves determining the scope of the project, setting objectives, and establishing a project team or working group.
- **Research and Analysis:** The project team conducts extensive research and analysis on the issue at hand. They review existing literature, gather input from stakeholders, and consider the potential impact of different approaches. This stage may involve conducting field studies, performing economic analyses, and consulting with experts.

- **Development of Exposure Draft:** Based on the research and analysis, the standard-setting body develops an exposure draft, which is a proposed version of the accounting standard. The exposure draft outlines the proposed requirements and seeks public input and feedback from various stakeholders.
- **Public Consultation:** The exposure draft is published for public consultation. Interested parties, including companies, professional organizations, investors, regulators, and the general public, are invited to review and provide comments on the proposed standard. This feedback helps the standard-setting body to refine and improve the standard.
- **Deliberations and Redrafting:** The standard-setting body considers the comments received during the public consultation period and holds deliberations to address the issues raised. They may revise the exposure draft, make changes to the proposed requirements, or provide additional guidance based on the feedback received.
- **Publication of the Final Standard:** After considering the public feedback and completing the necessary revisions, the standard-setting body finalizes the accounting standard. The standard is then formally issued and published, along with supporting materials, such as implementation guidance and illustrative examples.
- **Implementation and Monitoring:** Once the accounting standard is issued, companies and other affected parties are required to implement it within a specified timeframe. The standard-setting body and other relevant bodies may provide additional support, such as educational materials and training, to facilitate the effective implementation of the standard. Ongoing monitoring and review of the standard's implementation and effectiveness may also be conducted.

It's important to note that the standard-setting process may vary slightly across different standard-setting bodies, jurisdictions, and types of standards. However, the fundamental aim is to ensure that accounting standards are developed through a rigorous and inclusive process that considers the needs and perspectives of various stakeholders.

### **STEPS INVOLVED IN STANDARD SETTING PROCESS**

The standard-setting process involves several key steps, which may vary depending on the specific standard-setting body and jurisdiction. However, the following steps provide a general overview of the standard-setting process:

1. **Agenda Setting:** The standard-setting body identifies and determines the topics or issues to be addressed in the accounting standards. This could be based on emerging accounting issues, changes in business practices, or requests from stakeholders.
2. **Project Initiation:** Once an issue is identified, the standard-setting body initiates a project to develop or revise the accounting standard. This includes defining the project scope, objectives, and timelines.
3. **Research and Analysis:** The standard-setting body conducts research and analysis to gather information and evaluate the accounting treatment for the identified issue. This may involve reviewing academic literature, consulting with experts, conducting field studies, and analyzing the potential impact of different approaches.
4. **Preliminary Views or Discussion Paper:** The standard-setting body may publish preliminary views or a discussion paper that outlines its initial thinking on the issue and seeks public input. This provides an opportunity for stakeholders to provide feedback, share their views, and contribute to the standard-setting process.
5. **Exposure Draft:** Based on the research and analysis, the standard-setting body develops an exposure draft, which is a proposed version of the accounting standard. The exposure draft includes the proposed requirements, supporting explanations, and implementation guidance.
6. **Public Consultation:** The exposure draft is made available for public consultation, typically for a specified period. Interested parties, such as companies, professional organizations, investors, and regulators, are invited to review the exposure draft and provide comments. The standard-setting body may also hold public hearings or meetings to gather additional input.
7. **Deliberations and Redrafting:** The standard-setting body reviews the comments received during the public consultation and engages in deliberations to address the issues raised. They may revise the exposure draft, make changes to the proposed requirements, and consider alternative approaches based on the feedback received.

## **ACCOUNTING STANDARDS**

### **Meaning:**

Accounting standards refer to the set of guidelines, rules, and principles that are used to prepare and present financial statements of an organization. They provide a standardized framework for recording, measuring, and disclosing financial information to ensure consistency, comparability, and transparency in financial reporting.

The purpose of accounting standards is to establish uniformity and reliability in financial reporting, allowing investors, creditors, regulators, and other stakeholders to make informed decisions based on the financial statements of an entity. These standards dictate how various financial transactions and events should be recognized, measured, and reported in the financial statements.

Accounting standards are typically issued by accounting standard-setting bodies or organizations, such as the International Financial Reporting Standards (IFRS) Foundation and the Financial Accounting Standards Board (FASB) in the United States. These bodies develop and promulgate accounting standards based on extensive research, consultations with experts, and considerations of the needs of various stakeholders.

## **OBJECTIVES OF ACCOUNTING STANDARDS**

The objectives of accounting standards are to:

1. **Enhance comparability:** Accounting standards aim to ensure that financial statements are prepared in a consistent manner, allowing for meaningful comparisons between different entities and over different periods. This comparability facilitates better analysis and decision-making by investors, creditors, and other stakeholders.
2. **Improve transparency:** Accounting standards promote transparency by requiring organizations to provide relevant and reliable information in their financial statements. Transparent financial reporting helps stakeholders understand an organization's financial position, performance, and cash flows, enabling them to make informed decisions.
3. **Increase reliability:** Accounting standards establish principles and guidelines for recognizing, measuring, and disclosing financial information. By following these

standards, organizations can enhance the reliability of their financial statements, reducing the risk of misrepresentation or manipulation of financial data.

4. **Facilitate accountability:** Accounting standards contribute to the accountability of organizations by providing a framework for the preparation and presentation of financial statements. They help ensure that organizations are accountable for their financial performance and the use of resources, thereby fostering trust among stakeholders.
5. **Support decision-making:** Accounting standards aim to provide relevant and timely information that assists users of financial statements in making sound economic decisions. The standards guide the identification and measurement of financial transactions and events, enabling stakeholders to assess an organization's financial health and make informed choices.
6. **Promote economic stability:** Consistent and reliable financial reporting, facilitated by accounting standards, contributes to the stability and efficiency of financial markets. It allows investors and creditors to assess the risks and returns associated with investments, promoting confidence and attracting capital to productive uses.
7. **Ensure regulatory compliance:** Accounting standards serve as a basis for regulatory authorities to establish financial reporting requirements. Compliance with accounting standards helps organizations meet legal and regulatory obligations, ensuring that financial statements meet the necessary standards for audit and regulatory review.

### **TYPES OF ACCOUNTING STANDARDS**

There are several accounting standards that are widely recognized and used around the world. Here is a list of some of the major accounting standards:

1. **International Financial Reporting Standards (IFRS):** Developed and issued by the International Financial Reporting Standards Foundation (IASB), IFRS is a set of accounting standards used by many countries globally. It is designed to enhance comparability and transparency in financial reporting.
2. **Generally Accepted Accounting Principles (GAAP):** GAAP is a set of accounting standards used primarily in the United States. It encompasses various rules and guidelines established by the Financial Accounting Standards Board (FASB) to ensure consistent and reliable financial reporting.

3. **International Public Sector Accounting Standards (IPSAS):** IPSAS is a set of accounting standards developed specifically for the public sector. It provides guidance for the preparation and presentation of financial statements by government entities and other public sector organizations.
4. **Generally Accepted Accounting Practice (GAAP) - United Kingdom:** GAAP-UK refers to the accounting standards and principles followed in the United Kingdom. It includes regulations and guidelines issued by the Financial Reporting Council (FRC) and is tailored to the needs of UK businesses.
5. **Chinese Accounting Standards (CAS):** CAS is a set of accounting standards used in China. It is issued by the Ministry of Finance of the People's Republic of China and is aimed at aligning financial reporting practices with international standards while considering the specific needs of the Chinese business environment.
6. **Accounting Standards for Private Enterprises (ASPE) - Canada:** ASPE is a set of accounting standards used by private enterprises in Canada. It provides guidance on financial reporting for non-publicly accountable entities and is issued by the Accounting Standards Board (AcSB).
7. **Generally Accepted Accounting Principles (GAAP) - India:** GAAP-India refers to the accounting standards and principles followed in India. They are issued by the Institute of Chartered Accountants of India (ICAI) and aim to harmonize Indian accounting practices with international standards.
8. **Australian Accounting Standards (AAS):** AAS is a set of accounting standards used in Australia. It is issued by the Australian Accounting Standards Board (AASB) and provides guidance on financial reporting for various entities in Australia.

#### **LIST OF ACCOUNTING STANDARDS:**

- ❖ AS 1: Disclosure of Accounting Policies
- ❖ AS 2: Valuation of Inventories
- ❖ AS 3: Cash Flow Statements
- ❖ AS 4: Contingencies and Events Occurring After the Balance Sheet Date
- ❖ AS 5: Net Profit or Loss for the Period, Prior Period Items, and Changes in Accounting Policies
- ❖ AS 6: Depreciation Accounting
- ❖ AS 7: Construction Contracts
- ❖ AS 8: Accounting for Research and Development



- ❖ AS 9: Revenue Recognition
- ❖ AS 10: Accounting for Fixed Assets
- ❖ AS 11: The Effects of Changes in Foreign Exchange Rates
- ❖ AS 12: Accounting for Government Grants
- ❖ AS 13: Accounting for Investments
- ❖ AS 14: Accounting for Amalgamations
- ❖ AS 15: Employee Benefits
- ❖ AS 16: Borrowing Costs
- ❖ AS 17: Segment Reporting
- ❖ AS 18: Related Party Disclosures
- ❖ AS 19: Leases
- ❖ AS 20: Earnings per Share
- ❖ AS 21: Consolidated Financial Statements
- ❖ AS 22: Accounting for Taxes on Income
- ❖ AS 23: Accounting for Investments in Associates in Consolidated Financial Statements
- ❖ AS 24: Discontinuing Operations
- ❖ AS 25: Interim Financial Reporting
- ❖ AS 26: Intangible Assets
- ❖ AS 27: Financial Reporting of Interests in Joint Ventures
- ❖ AS 28: Impairment of Assets
- ❖ AS 29: Provisions, Contingent Liabilities, and Contingent Assets

**JOINT VENTURE MEANING:**

A joint venture refers to a business arrangement where two or more separate entities come together to form a new legal entity to pursue a specific business objective or project. In a joint venture, the participating entities pool their resources, expertise, and capital to undertake a mutually beneficial venture while retaining their separate legal identities and ownership.

The joint venture is typically established through a contractual agreement between the participating entities, outlining the terms and conditions of the collaboration. This agreement specifies the purpose of the joint venture, the rights and responsibilities of each party, the sharing of profits and losses, and the duration of the venture.

Joint ventures can take various forms, such as strategic alliances, partnerships, or limited liability companies (LLCs). They are often undertaken to access new markets, combine

complementary skills and resources, share risks and costs, and capitalize on each participant's expertise or market presence.

**Key characteristics of a joint venture include:**

1. **Shared Control and Ownership:** Each participating entity in a joint venture has a degree of control and ownership over the new entity, depending on the terms of the agreement. Decision-making is typically shared, and major decisions require consensus or are based on pre-agreed rules.
2. **Shared Risks and Rewards:** The participating entities share the risks, costs, and profits associated with the joint venture. The allocation of risks and rewards is usually determined by the agreed-upon ownership percentage or other predetermined formulas outlined in the joint venture agreement.
3. **Limited Duration:** Joint ventures are often established for a specific project or a defined period. The duration of the joint venture is outlined in the agreement and may be extended or terminated based on the achievement of objectives or other specified conditions.

**ASSOCIATES MEANING**

The term "associates" can have various meanings depending on the context. Here are a few common interpretations:

1. **Professional Associates:** In a professional setting, associates typically refer to individuals who work in an organization at a level below partners or senior members. For example, in law firms, associates are lawyers who are not yet partners but are employed by the firm.
2. **Business Associates:** In the business world, associates can refer to individuals who have a working relationship with each other or an organization. Business associates can include partners, colleagues, or individuals with whom one has a professional connection or affiliation.
3. **Academic Associates:** In academia, associates may refer to individuals who hold a position as an associate professor. Associate professors typically have advanced degrees and are part of the faculty at a college or university. They rank below full professors but above assistant professors.

4. **Social Associates:** In a social context, associates generally refer to individuals who are connected through a common interest, activity, or organization. They can be friends, acquaintances, or people who regularly interact but may not have an intimate or close relationship.

It's important to note that the precise meaning of "associates" can vary depending on the field or context in which it is used.

## **CONVERGENCE**

### **Meaning:**

Convergence refers to the coming together or merging of different elements, ideas, technologies, or disciplines into a unified whole. It involves the integration of previously separate entities or systems, leading to synergistic effects and new possibilities.

### **Here are some common meanings and benefits associated with convergence:**

1. **Technological Convergence:** Technological convergence refers to the integration of different technologies, functionalities, or platforms into a single device or system. For example, smartphones are a result of the convergence of telecommunication, computing, and multimedia technologies. The benefits of technological convergence include increased convenience, improved efficiency, enhanced functionality, and new opportunities for innovation.
2. **Media Convergence:** Media convergence refers to the merging of traditional media forms (such as print, broadcast, and film) with digital technologies and platforms. This convergence has transformed the media landscape, enabling new modes of content creation, distribution, and consumption. Benefits of media convergence include greater accessibility to information and entertainment, interactivity, personalized experiences, and new avenues for content creators.
3. **Convergence in Business:** In the business context, convergence can refer to the integration of various industries, markets, or business models. This can lead to the development of new products, services, or business strategies. Benefits of convergence in business include diversification of revenue streams, increased market reach, improved efficiency through synergies, and the ability to capitalize on emerging trends or technologies.

4. **Convergence in Knowledge and Disciplines:** Convergence in knowledge and disciplines involves the integration of ideas, theories, or approaches from multiple fields to address complex problems or foster innovation. By combining expertise and perspectives from different disciplines, convergence can lead to breakthroughs, interdisciplinary collaborations, and novel solutions to societal challenges.

Overall, the benefits of convergence include increased efficiency, expanded capabilities, new opportunities for innovation, improved user experiences, and the potential for transformative changes in various domains. Convergence often leads to the creation of entirely new paradigms, industries, and ways of thinking that have the potential to shape the future.

## **GAAP**

### **Meaning:**

GAAP stands for Generally Accepted Accounting Principles. It refers to a set of accounting standards, principles, and procedures that are widely recognized and used in financial reporting. GAAP provides a framework for the preparation, presentation, and disclosure of financial statements in a consistent and transparent manner.

### **The objectives of GAAP are as follows:**

1. **Standardization:** GAAP aims to establish uniformity and consistency in financial reporting across different organizations and industries. By providing a common set of accounting principles, it helps ensure that financial information is comparable, facilitating meaningful analysis and decision-making.
2. **Reliability:** One of the key objectives of GAAP is to ensure that financial statements are reliable and trustworthy. GAAP provides guidelines and procedures to ensure accurate and unbiased financial reporting, reducing the risk of manipulation or misrepresentation of financial information.
3. **Relevance:** GAAP aims to ensure that financial statements provide relevant and timely information to users. Financial information should be capable of influencing the decisions of users by providing insights into an entity's financial performance, position, and cash flows.
4. **Understandability:** GAAP promotes the use of clear and understandable financial reporting language. Financial statements should be presented in a manner that can be

easily comprehended by users who have a reasonable knowledge of business and economic activities.

5. **Comparability:** GAAP emphasizes the comparability of financial information over time and across different entities. This allows users to assess the performance and financial position of an entity relative to its past performance, as well as to make meaningful comparisons with other organizations.
6. **Disclosure:** GAAP requires the disclosure of relevant information beyond the financial statements to provide a complete and accurate picture of an entity's financial position and performance. This includes disclosures about significant accounting policies, contingent liabilities, related party transactions, and other pertinent information.

The objectives of GAAP are primarily focused on ensuring the transparency, reliability, and usefulness of financial information, enabling stakeholders to make informed decisions based on the reported financial statements. Adhering to GAAP helps promote consistency, comparability, and trust in financial reporting practices.

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### **Theory Questions**

**(A) Short Answers:**

1. Define IFRS and its Objectives.
2. Interpret the steps involved in Standard Setting Process of IFRS.
3. Define Accounting Standards and its uses in IFRS.
4. List out the importance of IFRS.
5. Assess the objectives of Indian Accounting Standards.
6. State the meaning of Joint Venture and Associates.
7. Explain the merits and demerits of IFRS.

**(B) Long Answers:**

1. Extend the vital principles of IFRS.
2. List out the various Indian Accounting Standards- Explain?
3. Elaborate Convergence and its Benefits.

