CHAPTER 1 Accounting : An Introduction

Unit : 3 Accounting Standards – Concepts, Objectives, Benefits

[1] (a) The whole idea behind the framework of Accounting Standards was to ensure transparency, consistency, comparability, adequacy and reliability of financial reporting. These elements are required where there is a divorce of ownership from management. This case is only with companies.

Hence, the regulatory body thought it appropriate to make it mandatory only for the companies to follow AS and not over burden the small concerns with complex compliances.

[2] (c) According to the objectives set up by ICAI for formulation of Accounting Standards, they seek to describe the accounting, principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view.

[3] (b) AS-10 on Accounting for Fixed Assets was issued by ICAI in 1985

[4] (b) Amongst the limitations of Accounting Standards, one of the major limitation is that the Accounting Standards cannot over-ride the statute. These standards are required to be framed within the ambit of prevailing and existing statutes.

[5] (d) IASB stands for "International Accounting Standards Board".

[6] (a) AS-8 on Accounting for Research and Development was withdrawn w.e.f. 1st April 2003 and on and from that date AS-26 on Intangible Assets become mandatory. Therefore, AS-8 was replaced by AS-26.

[7] (d) The whole idea of accounting standards is centered around harmonization of accounting policies and practices followed by different business entities so that the diverse accounting practices can be standardized. They also aim at elimination of non-comparability and consequently increasing the reliability of financial statements. They even provide for standardized disclosure norms.

[8] (b) AS-2 issued by ICAI is on "Valuation of Inventories" and was revised in 1999. As per the standard, the cost of inventories should comprise costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventory is valued by following conservatism principle i.e., at lower of the cost or the market price.

[9] (b) Accounting Standards are written policy documents which provide framework and policies so that the financial statements of different enterprises become comparable.

[10] (c) According to consistency concept in order to achieve comparability of the financial statements of an enterprise through time, the accounting policies, accounting principles are followed consistently from one period to another.

Thus, we can say that consistency with reference to application of accounting principles refer to the accounting methods and procedures used have to be consistently applied from year to year.

[11] (d) Following are the relevant accounting standards :

AS 10:- Accounting for Fixed Assets
AS 24:- Discounting Operations
AS 26:- Intangible Assets
AS 28:- Impairment of Assets

Thus, correct alternative is : **(a) – (iii), (b) – (iv), (c) – (i), (d) – (ii)**

[12] (c) The whole idea of **Accounting Standards** is centered around harmonisation of accounting policies and practices followed by different business entities so that the diverse accounting practices adopted for various aspects of accounting can be standardised.

[13] (a) If at any point there is a clash between Accounting Standards and Statute then AS will surrender and statute will prevail.

Hence, this is a limitation of Accounting Standards.

[14] (b) Intangible Asset → As 26
Joint Venture → As 27
Impairment → As 28
Interim → As 25

[15] (a) AS- 22 is related with Accounting for taxes on Income.

[16] (b) AS- 29 is applicable on provisions, contingent assets and contingent liabilities.

[17] (d) Choice between justified alternative accounting treatments becomes difficult, this is a disadvantage of AS and not a benefit.

[18] (d) An accounting policy as per AS – 1 may be changed due to any of the mentioned reasons but for no other reason. Hence, answer is all of the above.

[19] (d) The aim of issuing accounting standards by ICAI is all of the above i.e. to harmonise Olivares policies, eliminate non-comparability and thereby in prove reliability of financial statements. Hence, all of the above.