Star Rating

On the basis of Maximum marks from a chapter	Nil
On the basis of Questions included every year from a chapter	Nil
On the basis of Compulsory questions from a chapter	Nil

CHAPTER

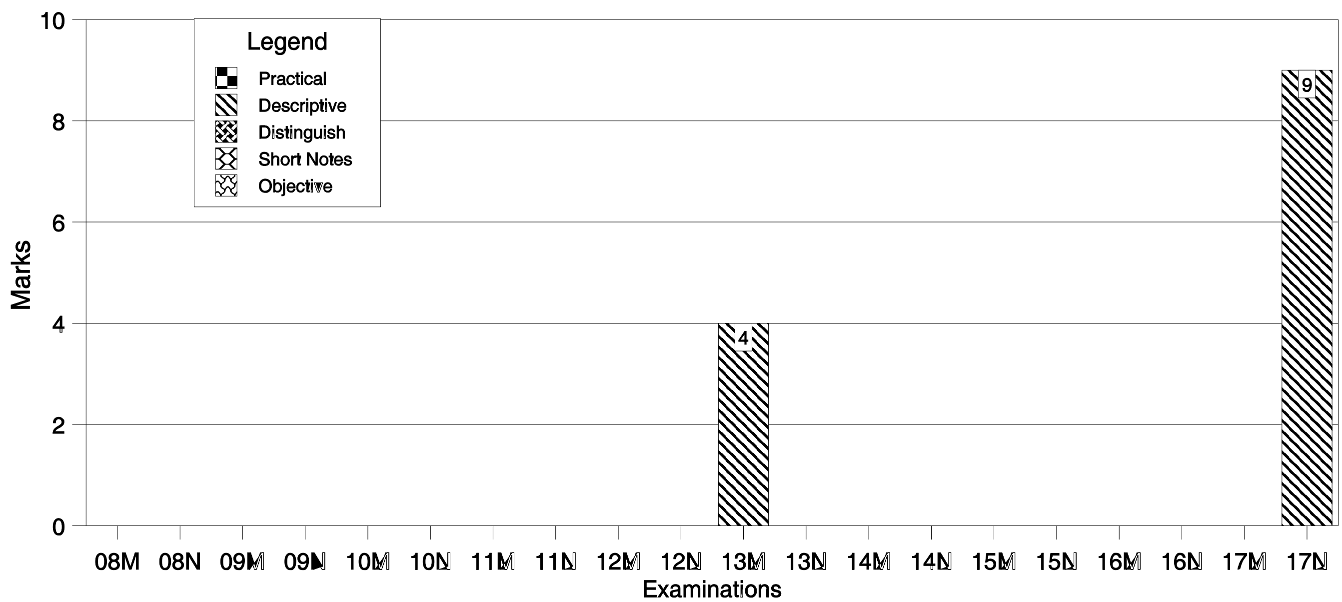
1

Introduction to Accounting Standards

THIS CHAPTER COMPRISES OF

☞ Standards Setting Process ☞ Benefits of Accounting Standards ☞ Status of Accounting Standards ☞ International Accounting Standard Board ☞ International Financial Reporting Standards as Global Standards ☞ Convergence to IFRS in India ☞ Significance of Indian Accounting Standards ☞ Carve OUTS/INS in IND AS ☞ List of IND AS

Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



Bloom's Taxonomy (BT)

Keeps You Ahead During Learning

Basis On Which Questions Are Asked In Your Exam. ***So*** **Learn In a Proper, Systematic & Scientific Way.**	**Low Level Thinking Skills**	**Level 1:** Knowledge **Level 2:** Comprehension
	High Level Thinking Skills	**Level 3:** Application **Level 4:** Analysis **Level 5:** Synthesis **Level 6:** Evaluation

Focus:

Analysis of this chapter on the basis of Bloom's Taxonomy

Questions asked in your exam from this chapter are basically based on Low Level Thinking Skill. However, some question requires Synthesis skill along with Low Level Skill.

◗ SHORT NOTES

2008 - Dec [2] (a) ***Based on BT's Level 1***

Write short note on the following :

(i) Objectives of international accounting standards.

(3 marks) *[CS Exe - I]*

Answer :

Objectives of International Accounting Standards : The objectives of the International Accounting Standard are to improve and to harmonise company reporting around the world. Basically the IAS has two objectives:

1. To formulate and publish International Accounting Standards.
2. To promote their worldwide acceptance and observation.

With regard to the first objectives the IAS issues financial accounting standards on specific problems concerning elementary as well as sophisticated accounting issues. As to the second objective, to promote worldwide acceptance and observation of the IAS, the IASC has no inherent authority to do this and instead relies on its members organisations, who have pledged to use their best efforts to have the standard adopted by their national authoritative standards setting bodies.

2010 - June [2] (a) ***Based on BT's Level 1***

Write short note on the following:

(i) Non-acceptability of International Accounting Standards

(3 marks) *[CS Exe - I]*

Answer :

Non acceptability of International Accounting Standard : Accounting practices in different countries are different due to there different legislative requirement, social and economic condition, long standing practices, tax structure and organized professional accounting. Whenever multinational company have different way of working than national company, and of due to this. Worldwide contradiction of views have been noticed in the national standard setting bodies and international bodies. There is a glaring diversity in accounting practices in different countries which require harmonization for evolving uniform accounting standard for world wide application.

The above discussed factors are the basic reason for non-acceptability of International Accounting Standard throughout the world.

◗ DESCRIPTIVE QUESTIONS

2007 - Nov [6] ***Based on BT's Level 1***

Answer the following:

(e) List the criteria to be applied for rating an enterprise as Level-I enterprise for the purpose of Compliance of Accounting Standards in India.

(4 marks)

Answer :

Enterprises which fall in any one or more of following categories are classified as level I Enterprise –

1. Enterprises, whose equity or debt securities are either listed or are in the

process to be listed in India or outside India.
2. Banks, Insurance Companies and Financial institutions.
3. All commercial, industrial and other reporting business enterprises, whose **total turnover** during the previous year **exceeds ₹ 50 crores** (as per the audited financial statement).
4. All commercial, industrial and other reporting business enterprises, whose **total borrowings including public deposits** during the previous year **exceeds ₹ 10 crores** (as per audited financial statement).
5. Holding or subsidiary company of any of the above enterprises any time during the year.

2008 - June [2] (a) ***Based on BT's Level 1, 2 & 5***

"Accounting standards are formulated in conformity with the provisions of the applicable laws, customs, usages and business environment of a country." Comment. (5 marks) *[CS Inter - I]*

Answer :

Every effort is made to issue accounting standards which are in conformity with the provisions of the applicable laws, customs, usages and business environment of our nation.

However, if due to subsequent amendments in the law, a particular accounting standard is found to be not in conformity with such law, the provision of the said law will prevail and the financial statements should be prepared in conformity with such law.

The accounting standards by their very nature cannot and do not override the local regulations which govern the preparation and presentation of financial statements in our country.

However, the Institute of Chartered Accountants of India will determine the disclosure requirements to be made in the financial statements and auditor's reports. Such disclosure may be by way of appropriate notes explaining the treatment of particular items. Such explanatory notes will only be in the nature of clarification and therefore, need not be treated as adverse comments on the related financial statements.

The accounting standards are intended to apply to items which are material. Any limitations with regard to the applicability of a specific standard will be made clear by the Institute from time to time.

The Institute will use its best endeavours to persuade the Government, appropriate authorities, industrial and business community to adopt these standards in order to achieve uniformity in the presentation of financial statements. In formulation of Accounting Standards, the emphasis would be on laying down accounting principles for application and implementation thereof.

2009 - Dec [4] (c) ***Based on BT's Level 1 & 2***

"Accounting Standards are mandatory for all companies." Comment.

(3 marks) *[CS Exe - I]*

Answer :

Central Government to prescribe Accounting Standards

According to **Sec. 133** of Companies Act, 2013, the Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under Sec. 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial

Reporting Authority. The Accounting Standard are mandatory and applicable to all companies while preparing financial statement of the company.

Where the financial statement of the company do not comply with the accounting standard, such companies shall disclose in its financial statement the following :

1. the deviation from the accounting standard;
2. the reasons for such deviation; and
3. the financial effect, if any, arising due to such deviation.

2013 - May [7] ***Based on BT's Level 1***

Answer the following:

(e) What are the issues, with which Accounting Standards deal? (4 marks)

Answer :

Accounting Standards deal with the issues of:

1. **Recognition** of events and transactions in the financial statements,
2. **Measurement** of these transactions and events,
3. **Presentation** of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and
4. **Disclosure** requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

2013 - Dec [2] (e) ***Based on BT's Level 1***

State the objectives of the Accounting Standards Board.

(3 marks) *[CS Exe - I]*

Answer:

Objectives of the Accounting Standards Board:

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

2015 - June [2] (a) ***Based on BT's Level 1 & 2***

Explain the convergence of Indian Accounting Standards (IAS) with International Financial Reporting Standards (IFRS). (3 marks) *[CS Exe - II]*

Answer:

Applicability:

Companies which are not required to follow Ind AS shall continue to comply with Accounting Standards ('AS') as prescribed in Companies (Accounting Standards) Rules, 2006.

Highlights of the notified Companies (Indian Accounting Standard) Rules, 2015 is provided below:

Applicability of Ind AS:

The Companies and their Auditors shall comply with the Ind AS specified in the Annexure to the Rules in preparation of their Financial Statements (FS) and Audit respectively, in the following manner;

1. **Voluntary adoption (for FY 2015-16):**
   Any company may comply with the Ind AS for Financial Statements for accounting periods beginning on or after 1st April 2015, with the comparatives for the periods ending on 31st March 2015, or thereafter. This option is also available to companies whose securities are listed or are in the process of being listed on Small and Medium Enterprises ('SME') exchange.
2. **Mandatory adoption:**
   (i) **From FY 2016-17:** Companies satisfying following criteria are required to comply with the Ind AS for or the accounting periods beginning on or after 1st April 2016, with the comparatives for the periods ending on 31st March 2016, or thereafter.
   (a) Companies whose Equity or Debt Securities are listed or are in the process of being listed on any stock exchange in India or outside India and having Net Worth (NW) of ₹ 500 crore or more.
   (b) Unlisted Companies (i.e. other than those mentioned in (a) above) having NW of ₹ 500 crore or more.
   (c) Holding, Subsidiary, Joint Venture/Associate Companies of Companies covered in (a) and (b) above.

(ii) **From FY 2017-18:** Companies satisfying following criteria are required to comply with the Ind AS for or the accounting periods beginning on or after 1st April 2017, with the comparatives for the periods ending on 31st March 2017, or thereafter:

(a) Companies whose Equity or Debt Securities are listed or are in the process of being listed on any stock exchange in India or outside India and having NW of less than ₹ 500 crore.

(b) Unlisted Companies having NW of ₹ 250 crore or more but less than ₹ 500 crore.

(c) Holding, Subsidiary, Joint Venture/Associate Companies of Companies covered in (a) and (b) above.

Ind AS once required to be complied with in accordance with these rules, shall apply to both standalone financial statements (SFS) and consolidated financial statements (CFS).

2016 - June [2] (b) ***Based on BT's Level 1***

State the functions of National Financial Reporting Authority to provide for matters relating to accounting and auditing standards. (3 marks) *[CS Exe - II]*

Answer:

Functions of National Financial Reporting Authority:

1. Make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be;
2. monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed;

3. oversee the quality of service of the professionals associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters as may be prescribed;
4. The Central Government may prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

2017 - Nov [1] {C} (d) What are Accounting Standards? Explain the issues, with which they deal. (5 marks)

2017 - Nov [7] Answer the following:

(e) List out the criteria laid down for classification of non-corporate entities to bring them under Level I category as per ICAI. (4 marks) *[IPCC Gr. II]*

Table Showing Marks of Compulsory Questions

Year	13 M	13 N	14 M	14 N	15 M	15 N	16 M	16 N	17 M	17 N
Descriptive										5
Total										5