

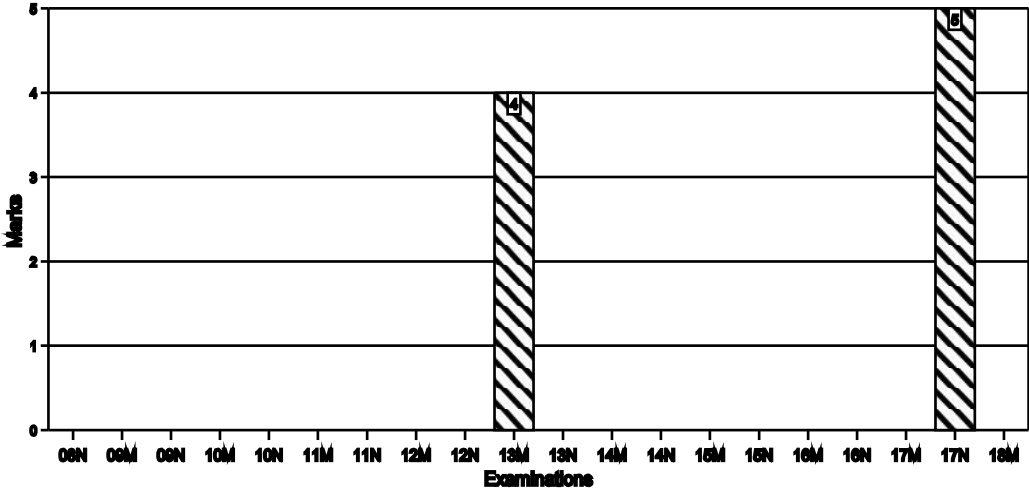
| | |
|--|--|
| CHAPTER | <h1 style="margin: 0;">Introduction to Accounting Standards</h1> |
| 1 | |
| This Chapter Covers: Study's Chapter: 1 | |
| <i>Chapter Comprises: Standards Setting Process ✎ Benefits of Accounting Standards ✎ Status of Accounting Standards ✎ International Accounting Standard 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</i> | |

THE GRAPH *Trend Analysis*

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

Legend

 Objective
  Short Notes
  Distinguish
  Descriptive
  Practical



For detailed analysis Login at www.scannerclasses.com for registration and password see first page of this book.

1.2 ■ **Solved Scanner CA Inter Gr. I Paper - 1 (New Syllabus)**

| TIME MANAGER | | <i>Plan and Manage your Time</i> | | | | | | |
|---------------------|--------------------------------|--|----------------------|-------------------------------------|-----------------------|-----------------------|-----------------------|--|
| Time | <i>First In-depth learning</i> | <i>Instant Revision (in hours)</i> | | <i>Periodic Revision (in hours)</i> | | | | |
| | i.e..... | Next day i.e.... | After 7 days i.e. on | After 30 days i.e. on | After 60 days i.e. on | After 90 days i.e. on | Fix as per your need. | |
| | Day 1 | Day 2 | Day 8 | Day 30 | Day 60 | Day 90 | | |
| 1. Budgeted | 5 | 1.15 | 1.00 | 0.45 | 0.10 | 0.10 | | |
| 2. Actual | | | | | | | | |
| 3. Variance (1-2) | | | | | | | | |

| QUICK LOOK | | <i>Weightage Analysis</i> | |
|-----------------------------------|----------------------------------|---------------------------------|--|
| Repeatedly Asked Questions | Common Answered Questions | Must Try Question | |
| | | 1.2, 3.1, 4.1 | |

1 **Introduction**

| | | |
|--|---------------------------|--------------------|
| Q.1.1 | 2013 - May [7] (e) | Descriptive |
| 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.

| Q.1.2 | 2017 - Nov [1] {C} (d) | Descriptive |
|--|------------------------|-------------|
| What are Accounting Standards? Explain the issues, with which they deal. (5 marks) [IPCC Gr. I] | | |

Answer:

Accounting Standards (AS) are written policy documents issued by an Expert Accounting Body or by Government or by other Regulatory Body.

Issues with which Accounting Standards deal are:

- (i) **Recognition:** Accounting Standards should recognise the transactions and events in the financial statement.
- (ii) **Measurement:** Accounting standards measure these transactions and events.
- (iii) **Presentation:** Presentation of these transactions and events in financial statements, in a meaningful and understandable manner.
- (iv) **Disclosure:** Requires disclosure in financial statements.

| Q.2.1 | 2008 - June [2] (a) | Descriptive |
|---|---------------------|-------------|
| “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.

| Q.3.1 | RTP | Descriptive |
|---|-----|-------------|
| What are the advantages and disadvantages of setting of Accounting Standards. | | |

Answer :

Advantages and disadvantages of setting of Accounting Standards.

Accounting Standards are prescribed by ICAI, which are to be followed in performing accounting transactions. Various accounting principles, techniques and methods are described in these standards, which assist the user in preparation and presentation of financial statements, with a true and fair view.

The various advantages of setting accounting standard are follows:

Advantages of setting Accounting Standard

1. Accounting standards reduces the possibilities of variation in the accounting treatment used while preparing financial statements.
2. Accounting standards call for certain disclosures which makes the financial statement more true and fair.
3. Accounting standard makes comparison of financial statements possible.

Disadvantages of setting Accounting Standard

1. Accounting problems may have alternative solutions. Accounting Standards makes the choice between different alternative accounting treatments difficult.
2. Accounting standards leads to rigidity and is less flexible.
3. Accounting standards are framed within the limits set by statutes. It cannot overrule the statutes.

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Need for Convergence towards Global Standards

| Q.4.1 | 2015 - June [2] (a) | Descriptive |
|--|---------------------|-------------|
| 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:
- 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.
 - Unlisted Companies having NW of ₹ 250 crore or more but less than ₹ 500 crore.
 - 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).

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International Accounting Standard Board

| Q.5.1 | 2008 - Dec [2] (a) (i) | Short Notes |
|---|------------------------|-------------|
| Write short note on the 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:

- To formulate and publish International Accounting Standards.
- 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.

1.8**■ Solved Scanner CA Inter Gr. I Paper - 1 (New Syllabus)**

| Q.5.2 | 2010 - June [2] (a) (i) | Short Notes |
|--|--------------------------------|--------------------|
| Write short note on the 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.

| Q.5.3 | 2013 - Dec [2] (e) | Descriptive |
|---|---------------------------|--------------------|
| 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.

