ACCOUNTING STANDARDS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. **Accounting Standards are written documents, policy documents issued by expert accounting Body, governments and other regulatory bodies covering the aspects of**
   - *recognition*
   - *measurement*
   - *treatment*
   - *presentation and*
   - *disclosure* **of accounting transaction in the financial statements.**

   Accounting Standard in India is issued by Accounting Standard Board of ICAI, which is one of the expert accounting body in India.

   Duties imposed on Auditors and Managerial Personnel under various law for compliance with Accounting Standards are as follows:

   - Section 211 of the Companies Act 1956 imposes duties on the company to comply with accounting standards.
   - Section 217(2AA) of the Companies Act 1956 imposes duties on directors to comply with the accounting standards and to include *Director's Responsibility Statement* regarding accounting standards in board's report.
   - Section 227(3) of the Companies Act 1956 imposes duties on the auditors.

2. **Statutes governing the requirement of compliance with Indian Accounting Standards**:

S.No.	Nature of organization	Statutes/Law/provision
1.	Companies	Section 211(3c) of Companies Act 1956.
2.	Partnership, Proprietorship, Societies, Trust, HUF and AOP	Liability imposed by the ICAI to the members to examine the Financial Statement with reference to the Accounting Standards.

3. **For Applicability of Accounting Standards, Entities as per ICAI are divided in to three categories**:

Level I

i. Entities whose securities are listed or in the process of listing.
ii. Banks, Financial Institution and entities carrying on insurance business.
iii. Commercial, industrial and business entities *exceeding turnover (excluding other income) rupees fifty crores* or *borrowings in excess of ten crores* in the immediately preceding year.
iv. Holding and subsidiary entities of any of the above.

Level II

i. Commercial, industrial and business entities *exceeding turnover (excluding other income) forty lakh but not exceeding rupees fifty crores* or *borrowings in excess of one crores but not in excess of ten crores* in the immediately preceding year.

Level III Entities which are not covered in Level I or II will be covered in this Level.

(For Level I all the Accounting Standard will be applicable, However for Level II and Level III, some standards are fully applicable, some standards are partially applicable and some of will with certain pera.)

However Companies Act 1956 has given a concept of SMCs (Small and Medium Companies) for certain relaxation of certain Accounting Standards.

SMCs

i. Securities of Companies are not listed or not in the process of listing at any stock exchange.
ii. Company is not in Banking, Insurance or Financial Institution business.
iii. Commercial, industrial and business entities *turnover (excluding other income) does not exceed fifty crores* or *borrowings in not exceeding of ten crores* in the immediately preceding year.
iv. Company is not holding or subsidiary of a non-SMC.

For Example: SMCs need not to prepare cash flow statement as per AS-3, need not to disclose the segment reporting as per AS-17, need not to disclose diluted EPS as per AS-20. Further they have been given some relaxation in AS-15 also.

4. IFRS (International Financial Reporting Standards)

IFRS is a set of international accounting standards issued by International Accounting Standard Board (IASB), stating how particular types of transactions and other events should be reported in financial statements. Presently Accounting Standard Board (ASB) of the ICAI formulates the Accounting Standards based on IFRS.

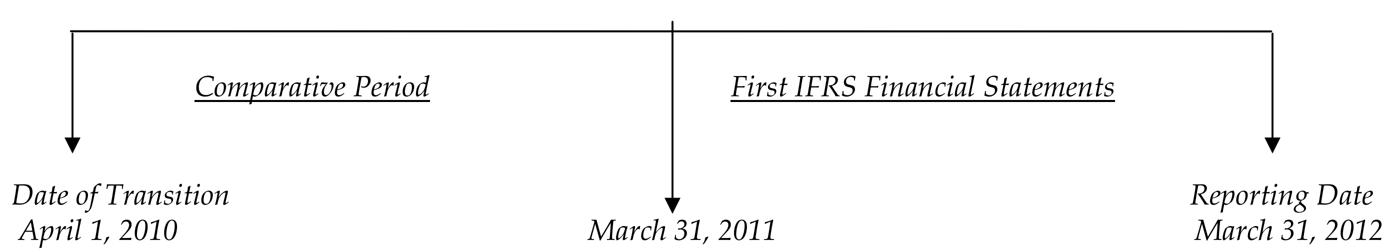
(*IAS and IFRS are same thing, earlier it was called as IAS and now it is called as IFRS.*)

5. Do we need convergence with IFRS.?

- Single Set of accounting standard all over the world,
- It would be beneficial to regulators too, as a complexity associated with needing to understand various reporting regimes would be reduced.
- Compliance burden on the companies will be reduced as they didn't require to prepare separate set of financial statement to comply with statutes of other states.

(Convergence does not mean that, IFRS should be adopted word by word. The basic meaning is that national accounting will comply with all the requirements of IFRS.)

6. Applicability of IFRS as proposed by ICAI and reporting time:



- Opening Balance Sheet as on April 1, 2010
- Comparative Financial Statements – year ending March 31st 2011.

7. **Entities which required to prepare Financial Statements with IFRS are as follows**:

   i. Whose Securities are listed or in the process of listing,
   ii. Banking or Financial Institution and insurance entity,
   iii. Commercial, industrial and business entities *exceeding turnover (excluding other income) rupees 100 crores* or *borrowings in excess of 25 crores* in the immediately preceding year.
   iv. Holding and subsidiary entities of any of the above.

8. **Benefits and challenges ahead with the convergence with IFRS**:

(a) Benefits (b) challenges

(a) **Benefits**:

- Use of Fair value instead of historical cost in balance sheet will reflect the true position,
- Eliminates the multiple reporting of Financial Statements (Like in Indian GAAP, US GAAP, IFRS),
- Encourages the foreign investing and thereby leads to inflow of foreign capital.
- Convergence to IFRS will increase the opportunities for Indian professionals in abroad.

(b) **Challenges**:

- Significant cost is involved (like training cost, internal personnel time cost)
- Lack of preparedness- As the professionals needed to be trained, audit staff needed to be trained by the auditors and significant demand of IFRS resources.
- Companies Act 1956 is required to be amended as IFRS requires different format of presentation and not the Schedule VI format.
- Significant impact on the financial position and performance of most of Indian companies.

9. **List of Accounting standards and corresponding IAS/IFRS.**

Accounting Standards	**IAS/IFRS**
AS-1, Disclosure of Accounting Policies	IAS-1, Presentation of Financial Statements
AS-2, Inventories Valuation	IAS-2, Inventories
AS-3, Cash Flow Statement	IAS-7, Cash Flow Statements
AS-4, Events occurring after Balance sheet date	IAS-10, Events after the Balance Sheet date

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AS-5, Net Profit or Loss for the period, prior period items and change in accounting policies	IAS-8, Accounting policies, change in accounting estimates and errors
AS-6, Depreciation Accounting	IAS-16, Property, plant and equipment
AS-7, Construction contracts	IAS-11, Construction contracts
AS-9, Revenue recognition	IAS-18, Revenue
AS-10, Accounting For Fixed Assets	IAS-16, Property, plant and equipment
AS-11, Effects of changes in Foreign Exchange Rates	IAS-21, The Effects of changes in Foreign Exchange Rates
AS-12, Accounting for Government Grants	IAS-20, Government Grants
AS-13, Accounting for Investments	IAS-32, 39 & 40*
AS-14, Amalgamation	IFRS-3, Business Combinations
AS-15, Employee Benefits	IAS-19 & 26*
AS-16, Borrowings Costs	IAS-23, Borrowing Costs
AS-17, Segment Reporting	IFRS-8, Operating Segments
AS-18, Related Party Disclosure	IAS-24, Related Parties
AS-19, Accounting for Leases	IAS-17, Leases
AS-20, Earning per share	IAS-33, Earning per share
AS-21, Consolidated Financial Statements	IAS-27, Consolidated and separate financial statements
AS-22, Taxes on Income	IAS-12, Income Taxes
AS-23, Accounting for Investments in Associates in consolidated financial statements	IAS-28, Investments in Associates
AS-24, Discontinuing operation	IFRS-5, Non-current Assets held for sale and discontinued operations
AS-25, Interim Financial Reporting	IAS-34, Interim Financial Reporting
AS-26, Intangible Assets	IAS-38, Intangible Assets
AS-27, Financial Reporting of Interest in Joint Venture	IAS-31, Interest in Joint ventures
AS-28, Impairment of Assets	IAS-36, Impairment of Assets

AS-29, Provision, Contingent Liability and Contingent Assets	IAS-37, Provision, Contingent Liability and Contingent Assets
AS-30,31 & 32, Financial Instruments	IAS-32, IAS-39, IFRS-7 *

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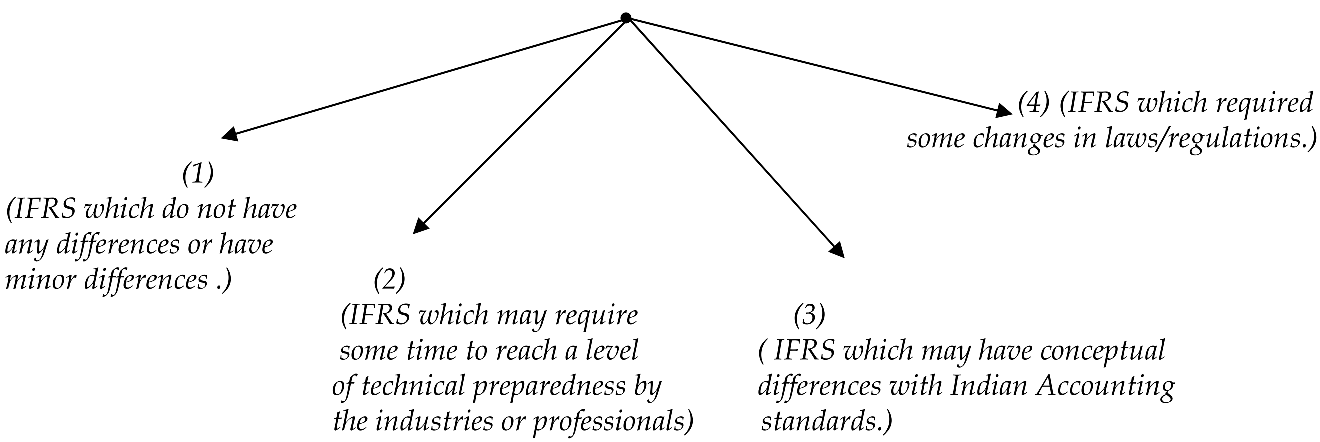
IAS-19, Employee Benefits
IAS-26, Accounting and reporting by retirement benefits plans
IAS-32, Financial Instruments- Disclosures
IAS-39, Financial Instruments- Recognition and measurements
IAS-40, Investment Property
IFRS-7, Financial Instruments- Disclosures

10. Categorization of IFRS by the ICAI and its adoption

The ICAI has categorized the IFRS on the basis of differences with Indian Accounting Standards in the following ways:



Earlier the stage wise approach to convergence was to be done on the basis of above categorization, however the stage wise approach may result in several complexities as the many accounting standards are inter-related, therefore the ICAI has opted for an approach whereby all IFRS should be adopted for the defined entities commencing on or after April 1, 2011.