ACCOUNTING STANDARDS AND FINANCIAL REPORTING

T.Y.BCOM

Advanced Accounting

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Agenda of Preparation

- Introduction of Accounting Standards
- Objectives of Accounting Standards
- Types of Accounting Standards
- International Accounting Standards (IAS) / International Financial Reporting Standards (IFRS).

INTRODUCTION

- Accounting Standards are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of – recognition, treatment, measurement, presentation and disclosure of accounting transactions and events in financial standards.

Accounting Standards in India

- In India, Accounting Standards are issued by ICAI – Accounting Standards Board (ASB) which was formed on 21st April 1977 as ICAI being premier accounting body in the country, took upon itself the leadership role constituting ASB.
- In India, 32 Accounting Standards are issued by IAS under NACAS now known as NFRA.
- 31 Accounting standards in force or useful.
- AS – 8 Research and Development is withdrawn pursuant to AS – 26 Intangible Assets on 14th April, 2003.

Accounting Standards in Different Nations

- As per International system, there are 41 Accounting Standards called IFRS.
- Adopted by 8 countries in the world.
- 70 to 80 countries planning adhere IFRS.

Evolution of Accounting Standards

ACCOUNTING STANDARDS	INITIATION
1. AS 1 to As 15	1970 to 1995
2. AS 16 to AS 29	2000 to 2007
3. AS 30 to AS 32	Later part of 2007

List of Accounting Standards

AS No.	Title	Date
AS – 1	Disclosure of Accounting Policies	01/04/1993
AS – 2	Valuation of Inventories	01/04/1999
AS – 3	Cash Flow Statements	01/04/1999
AS – 4	Contingencies and Events occurring after Balance Sheet Date	01/04/2001
AS – 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	01/04/1996
AS – 6	Depreciation Accounting	01/04/1995
AS – 7	Construction Contracts	01/04/2002
AS – 8	Research and Development	Now included in AS – 26

List of Accounting Standards

AS No.	Title	Date
AS – 9	Revenue Recognition	01/04/1993
AS – 10	Accounting for Fixed Assets	01/04/1993
AS – 11	The Effects of Changes in Foreign Exchange Rates	01/04/2004
AS – 12	Accounting for Government Grants	01/04/1994
AS – 13	Accounting for Investments	01/04/1995
AS – 14	Accounting for Amalgamations	01/04/1995
AS – 15	Employee Benefits	01/04/2006
AS – 16	Borrowing Costs	01/04/2000
AS – 17	Segment Reporting	01/04/2001

List of Accounting Standards

AS No.	Title	Date
AS – 18	Related Party Disclosures	01/04/2001
AS – 19	Leases	01/04/2001
AS – 20	Earnings Per Share	01/04/2001
AS – 21	Consolidated Financial Statements	01/04/2001
AS – 22	Accounting for Taxes on Income	01/04/2001
AS – 23	Accounting for Investments in Associates	01/04/2002
AS – 24	Discontinuing Operations	01/04/2006
AS – 25	Interim Financial Reporting	01/04/2002

List of Accounting Standards

AS No.	Title	Date
AS – 26	Intangible Assets	01/04/2003
AS – 27	Financial Reporting of Interest in Joint Ventures	01/04/2002
AS – 28	Impairment of Assets	01/04/2004
AS – 30	Financial Instruments: Recognition & Measurement	01/04/2009 (Recommendatory) 01/04/2011 (Mandatory)
AS – 31	Financial Instruments Presentation	01/04/2009 (Recommendatory) 01/04/2011 (Mandatory)
AS – 32	Financial Instruments Disclosures	01/04/2009 (Recommendatory) 01/04/2011 (Mandatory)

Objectives

- Standardize the diverse Accounting Policies, Valuation norms and Disclosure requirements.
- Eliminate the non – comparability of financial statements and thereby improving the reliability of financial statements.
- Eradicate baffling variation in treatment of accounting aspects.
- Facilitate inter – firm and intra – firm comparison.

DESCRIPTION OF ACCOUNTING STANDARDS

Accounting Standard – 3
Cash Flow Statement

- Revised in 1997
- AS – 3 deals with the provision about the historical change in cash position during the accounting period by means of cash flow statement. Incoming and Outgoing of cash act as a barometer to judge surplus and deficit.
- Cash Flow Statement is divides in three activities:

1. Operating Activity.
2. Investing Activity.
3. Financing Activity.

Accounting Standard – 7 Construction Contract

- Issued 2002.
- Contract specifically negotiated for construction of Asset or construction of Assets closely inter – related.
- Types of Contracts:-

1. Fixed Price Contract.
2. Cost – Plus Contract.

Accounting Standard – 8 Research & Development

- To deal with treatment of Cost of research and development in the financial statements, identify items of cost which comprise research and development cost it lays down condition of it. R&D cost may be deferred. Requires specific disclosures to be made regarding R&D costs.

Accounting Standard – 12 Accounting for Government Grants

- Issued 1994.
- Assistance provided by government in cash or in kind like.
- Grants of Assets like Plant and Machinery, Land, etc.
- Tax exemptions in notified area.

Accounting Standards – 15 Employee Benefits

- Issued 2006.
- All forms of consideration given by enterprise directly to the employees or their spouses, children or other dependents, to other such as trust, insurance companies in exchange of service rendered.

Accounting Standard – 17 Segment Reporting

- Issued 2001.
- It consists of 2 segments:-

1. Business segment.
2. Geographical segment.

- Information and different risk and return reporting.

Accounting Standard – 18 Related Party Disclosure

- Issued 2001
- **Related Party** are those that controls or significantly influence the management or operating policies of the company during reporting period.
- **Disclosure:**

1. Related party relationship.
2. Transactions between a reporting enterprises and its related parties.
3. Volume of transactions.
4. Amount written off in the period in respect of debts.

Accounting Standard – 19 Accounting for Leases

- Issued 2001
- Lease is a contract by which one party conveys land, property, services, etc. to the another for the specific period of time usually return for a periodic payment.
- A lease is a contract calling for the lease (user) to pay the leaser (owner) for a use of assets for a specific period of time.
- There are two types of lease:

1. Finance Lease.
2. Operating Lease.

Accounting Standard – 20 Earnings Per Share

- Issued 2001.
- Earning per share is a portion of a company's profit that is allocated to each outstanding share of common stock serving as a indicator of company profitability.
- The basic formula of EPS is:

$$\text{EPS} = \frac{Net\ income}{Average\ outstanding\ share}$$

Accounting Standard – 21 Consolidated Balance Sheet

- Issued 2001.
- Accounting for Parent and Subsidiary company in single entry.
- Disclosure:

1. List of all subsidiaries.
2. Proportion of ownership interest.
3. Nature of relation whether direct or indirect.

Accounting Standard – 22 Accounting for Taxes on Income

- Issued 2001
- Tax accounted for period in which are accounted.
- It should be accrued and not liability to pay.
- Deals in 2 measurements:

1. Current Tax.
2. Deferred Tax.

Accounting Standard – 23 Accounting for Investment in Associates

- Issued 2002.
- Objectives to set out principles and procedures for recognizing the investment associates in CFS of the investors, so that effect of investments in associates on financial position of group is indicated.

Accounting Standard – 24 Discontinuing Operations

- Issued 2006
- Establishes principles for reporting information about discontinuing operations.
- Covers discontinuing operations rather than discontinued operation.

Accounting Standard – 25 Interim Financial Reporting (IFR)

- Issued 2002.
- Reporting for less than a year i.e. 3 months.
- Clause 41 says publish financial results on quarterly basis.
- Objective is to provide frequently and timely assessment.

Accounting Standard – 26 Intangible Assets

- Issued 2003.
- No physical existence.
- Cannot be seen or even touched.
- There are three features of this standard as per AS:

1. Identifiable.
2. Non – monetary assets.
3. Without physical substance.

IFRS – INTERNATIONAL FINANCIAL REPORTING OF STANDARDS

Introduction to IFRS

- International Financial Reporting Standards (IFRS) are issued by International Accounting Standard Board (IASB).
- IFRS is a set of International Accounting Standards stating how particular types of transactions and other events should be reported in financial statements.
- IFRS are issued to develop accounting standards that would be acceptable worldwide to improve financial reporting internationally.

Objectives of IFRS

- To develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted IFRS standards based upon clearly articulated principles to make economic decisions.
- To promote the use of rigorous application of those standards in fulfilling the objectives associated with.
- To take account of, as appropriate, the special needs of small and medium – sized entities and emerging economies.
- To bring about convergence of National accounting standards and International accounting standards and IFRS to high quality solutions.

Benefits of IFRS

- Helpful to enterprises operating globally.
- Helpful to Investors.
- Helpful to Industry.
- Helpful to Accounting Professionals.

INTERNATIONAL ACCOUNTING STANDARDS (IAS)

International Accounting Standards (IAS)

IAS No.	Title
IAS 1	Presentation of financial statements. (Revised)
IAS 2	Inventories.
IAS 7	Cash Flow Statements.
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors.
IAS 10	Events after the Balance Sheet date.
IAS 11	Construction Contracts.
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment.
IAS 17	Leases.
IAS 19	Employee Benefits.
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance.
IAS 21	The Effects of Changes in Foreign Currency Rates.

International Accounting Standards (IAS)

IAS No.	Title
IAS 23	Borrowing Costs. (Revised)
IAS 24	Related Party Disclosures.
IAS 26	Accounting and Reporting by Retirement Benefit Plans.
IAS 27	Consolidated and Separate Financial Statements. (Revised)
IAS 28	Investments in Associates.
IAS 29	Financial Reporting in Hyper – Inflationary Economies.
IAS 31	Interests in Joint Ventures.
IAS 32	Financial Instruments: Presentation.
IAS 33	Earnings Per Share.
IAS 34	Interim Financial Reporting.
IAS 36	Impairment of Assets.
IAS 37	Provisions, Contingent Liabilities and Contingent Assets.

International Accounting Standards (IAS)

IAS No.	Title
IAS 38	Intangible Assets.
IAS 39	Financial Instruments: Recognition and Measurement.
IAS 40	Investment Policy.
IAS 41	Agriculture.

THANK YOU