CHAPTER	
1	**Introduction to Accounting Standards**

This Chapter Covers: Study's Chapter: 1

Chapter 1: Introduction to Accounting Standards

Chapter Comprises

1. Standards Setting Process
2. Status of Accounting Standards
3. International Accounting Standard Board
4. International Financial Reporting Standards as Global Standards
5. Convergence to IFRS in India
6. History of IFRS Converged
7. Indian Accounting Standards
8. Carve OUTS/INS in IND AS
9. List of IND AS

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

QUICK LOOK		***Weightage Analysis***
Repeatedly Asked Questions	**Common Answered Questions**	**Must Try Question**
		1.1, 1.2, 5.1, 6.1

MULTIPLE CHOICE QUESTIONS

1. ________ refers to a common set of accepted accounting principles, standards, and procedures that business reporting entity must follow when it prepares and presents its financial statements.
   (a) Generally accepted accounting principles(GAAP)
   (b) Accounting Standards (AS)
   (c) Internation Financial Report
   (d) Both (b) and (c)
2. ______ involves comparison of financial statements of same enterprise over a number of years.
   (a) Inter-enterprise comparison
   (b) Intra -enterprise comparison
   (c) Trend Analysis
   (d) Liquidity Analysis
3. ______ involves comparison of financial statements of different enterprise for same accounting period.
   (a) Intra -enterprise Comparison
   (b) Inter-enterprise Comparison
   (c) Variance Comparison
   (d) None of the above
4. _____is constituted in 1977.
   (a) Accounting Standards Board (ASB)
   (b) The Institute of Chartered Accountants of India(ICAI)
   (c) Securities Exchange Board of India (SEBI)
   (d) Central Board of Direct Tax (CBDT)

5. The Institute of Chartered Accountants of India has, so for, issued ____ Accounting Standards initially but presently there are only ____ Accounting Standards in effect.
   (a) 24,23 (b) 29,28
   (c) 28,29 (d) 29,27
6. _____Full Form of SCOPE is.
   (a) Standing Compilation of Public Enterprises
   (b) Standing Correspondences of Public Enterprises
   (c) Standing Conference of Private Enterprises
   (d) Standing Conference of Public Enterprises
7. _____of scope for creative accounting is another advantage of standardisation .
   (a) Promotion (b) Reduction
   (c) Increment (d) Wideness
8. _____refers to twisting of accounting policies to produce financial statements favorable to a particular interest group.
   (a) Cost Accounting
   (b) Financial Accounting
   (c) Creative Accounting
   (d) Management Accounting
9. Which of the following is not a process in standard -setting process:
   (a) Identification of area
   (b) Finalisation of exposure draft
   (c) Issue of AS
   (d) Constitution of financial statements
10. From the combination of following groups, find the correct set of accounting standards which are revised:
   (a) AS3, AS6, AS7, AS10, AS13, AS22, AS28
   (b) AS2, AS4, AS10, AS13, AS14, AS22, AS29
   (c) AS2, AS4, AS10, AS13, AS14, AS21, AS29
   (d) AS2, AS4, AS6, AS13, AS14, AS21, AS29

11. In 2010, the MCA withdraw_____.
    (a) AS-6 (b) AS-8
    (c) AS-5 (d) AS-7
12. International Accounting Standards (IAS) was established in:
    (a) January, 1973 (b) June, 1972
    (c) June, 1973 (d) January, 1972
13. The Standard issued by IASC till 31 March 2001 are known as ____ and the standards issued by IASB since 01 April 2001 are known as____.
    (a) IFRSs, IASs (b) Ind AS, IFRS
    (c) IASs, IFRSs (d) GAAP, IFRSs
14. Any country can become IFRS compliant by:
    (a) Adoption process (b) Convergences process
    (c) Either by (a) or (b) (d) None of the above
15. The differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as:
    (a) Carve in (b) Carve - outs
    (c) Carve - if (d) Carve -of
16. _____ are IFRS Converged Standards issued by the ____ under the supervision and control of ASB of ICAI and in consultation with NFRA.
    (a) Ind AS, SEBI (b) IAS, IASB
    (c) Ind AS, Central Government (d) Ind AS, State Government
17. "There is an urgent need to converge the current Indian accounting standards with the Internation Financial; Reporting Standards (IFRS) ," This statement is given by:
    (a) Late Shri Arun Jaitlely, Finance Minister(2014)
    (b) Shri Manmohan Singh, Finance Minister (1991)
    (c) Shrimati Nirmala Sitaraman, Finance Minister (2019)
    (d) Shri P. Chidambaram, Finance Minister (2012-14)

18. Match the following:

1.	Financial Reporting of interest in joint ventures	A	AS-17
2.	Segment Reporting	B	AS-16
3.	Borrowing Cost	C	AS-27
4.	Earning Per Share	D	AS-20

(a) 1-D, 2-A, 3-C, 4-B
(b) 1-C, 2-A, 3-B, 4-D
(c) 1-C, 2-A, 3-D, 4-B
(d) 1-C, 2-D, 3-A, 4-B

19. Assertion (A): It is not enough to comply with the standards and state that they have been followed.
Reason (R): It is not possible to prescribe a single set of polices for any specific accounting area that would be appropriate for all enterprises.
Choose correct option from following
(a) Both Assertion (A) and Reason (R) are correct and (R) is the correct explanation of (A)
(b) Both Assertion (A) and Reason (R) are correct but (R) is not correct explanation of (A)
(c) Assertion (A) is correct , But (R) is false
(d) Reason (R) is correct, But (A) is false.

20. Choose the correct sequence of standards-setting process from the following:
(a) Identification of area, constitution of study group, Preparation of draft and its circulation, Ascertainment of views of different bodies on draft, Finalisation of exposure draft (E.D), Comments received on (E.D.) Modification of the draft, issue of AS
(b) Identification of area, constitution of study group, preparation of draft and its circulation, Finalisation of exposure draft, Ascertainment of views of different bodies on draft, Comments received on exposure draft, Modification of the draft, issue of AS,

(c) Preparation of draft, and its circulation, Ascertainment of views of different bodies on draft, Identification of area, Finalisation of E.D, Comments received on E.D. Modification of the draft , issue of AS.
(d) None of the above

21. Assertion (A): Companies listed or SME exchange are not required to Apply Ind AS.
Reason (R): Such companies shall continue to apply existing ASs unless they choose.
(a) Both (A) and (R) are correct and (R) is the correct explanation of (A)
(b) Both (A) and (R) are correct but (R) is not the correct explanation of (A)
(c) Both (A) and (R) are incorrect
(d) (A) is correct but (R) is incorrect

22. Voluntary adoption of Ind AS is _____ for Non- Banking financial companies:
(a) allowed (b) not allowed
(c) May be allowed (d) None of the above

23. Full Form of IRDAI is:
(a) Indian Regulatory and Development Authority of Institution
(b) Indian Regional and Development Authority of Insurance
(c) Insurance Regulatory and Development Authority of India
(d) None of the above

24. NBFC having net worth below and not covered under the provisions shall continue to apply ASs specified in Annexure to companies (Accounting Standards) Rules, 2006.
(a) INR 250 Crores (b) INR 500 Crores
(c) INR 250 Lakhs (d) INR 600 Crores

25. Which of the following is/are benefits of Accounting Standards:
(a) Standardisation of alternative accounting treatment
(b) Requirements for additional disclosures
(c) Comparability of Financial statements
(d) All of the above

26. Accounting Standards (ASs) are writen policy documents issued by the Government with the support of other regulatory bodies, Example of such regulatory body is .
    (a) Ministry of Corporate Affairs
    (b) Ministry of Economic Affairs
    (c) Ministry of trade and Industry
    (d) Ministry of defence
27. Identify the Aspects of accounting transaction:
    (a) recognition, measurement, presentation, disclosure
    (b) recognition, measurement, comparison, disclosure
    (c) recognition, measurement, disclosure
    (d) None of the above
28. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other _____, having an interest in the Company's economic performance.
    (a) Stakeholder
    (b) Competitor
    (c) Public
    (d) Government
29. The IASC Comprises the professional accounting bodies of over____ countries.
    (a) 75 (b) 74
    (c) 76 (d) 77
30 IASB is initially known as:
    (a) International Accounting Standards Committees
    (b) International Accounting Standards Corporation
    (c) International Accounting Standards Association
    (d) International Association For Accounting

ANSWERS

1.	(a)	2.	(b)	3.	(b)	4.	(a)	5.	(d)
6.	(d)	7.	(b)	8.	(c)	9.	(d)	10.	(c)
11.	(a)	12.	(c)	13.	(c)	14.	(c)	15.	(b)
16.	(c)	17.	(a)	18.	(b)	19.	(a)	20.	(a)
21.	(b)	22.	(b)	23.	(c)	24.	(a)	25.	(d)
26.	(a)	27.	(a)	28.	(a)	29.	(a)	30.	(a)

1 *Introduction*

Q. 1.1	Practice	Descriptive
What is the concept of GAAP?		

Answer:

Generally Accepted Accounting Principles (GAAP) is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information.

Thus it refers to a common set of accepted accounting principles, standards, and procedures that business reporting entity must follow when it prepares and presents its financial statements. At international level, such authoritative standards are known as International Financial Reporting Standards (IFRS) and in India such authoritative standards are named as Accounting Standards (ASS) and Indian Accounting Standard (Ind AS).

Q.1.2	Practice Question	Descriptive
What do you mean by Accounting Standards? What are the aspects that they deal in?		

Answer:

Accounting Standards are written policy documents issued by the Government with the support of other regulatory bodies e.g. Ministry of Corporate Affairs (MCA) issuing Accounting Standards for corporate in consultation with National Financial Reporting Authority (NFRA) covering the following aspects of accounting transaction or events in the financial statements:

- Recognition;
- Measurement;
- Presentation; and
- Disclosure.

Accounting Standards deal with the following aspects-

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.
4. The disclosures relating to these transactions and events 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.

2 *Standard Setting Process*

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 :

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

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.

3 *Need for Convergence Towards Global Standards*

Q. 3.1	**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:

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:**

   1. **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.
   2. **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).

4 *International Accounting Standard Board (IASB)*

Q. 4.1	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.

5	***International Financial Reporting Standard (IFRS) As Global Standards***

Q. 5.1	**Practice Question**	**Descriptive**
What do you understand by the term International Financial Reporting Standards?		

Answer:

Generally Accepted Accounting Principles (GAAP) at international level are known as International Financial Reporting Standards (IFRS). They are considered as a "principles-based" set of standards who establish broad rules rather than dictating specific treatments.

The term International Financial Reporting Standards (IFRS) comprises:

1. IFRS issued by IASB
2. IAS issued by IASC
3. Interpretations issued by the Standard Interpretations Committee (SIC); and
4. Interpretations issued by the IFRS Interpretations Committee of the IASB (called IFRIC International Financial Reporting Standards Interpretation Committee).

6	***Becoming IFRS Compliant***

Q. 6.1	**Practice Question**	**Descriptive**
How can an organization become IFRS Compliant?		

Answer:

Any country can become IFRS compliant either by adoption process or by convergence process.

Technique I - Adoption Process

Adoption would mean that the country sets a specific timetable when specific entities would be required to use IFRS as issued by the IASB

Technique II-Convergence Process

Convergence means that the country will develop high quality, compatible accounting standards and there would be alignment of the standards of different standard setters with a certain rate of compromise, by adopting the requirements of the standards either fully or partially.

7 *What Are Carve Outs/Ins in IND AS*

Q. 7.1	Practice Question	Descriptive
What Are Carve Outs/Ins in IND AS?		

Answer:

In the context of Indian Accounting Standards (IND AS), "carve-in" and "carve-out" are terms used to describe the process of incorporating or excluding specific requirements or principles from existing accounting standards.

Carve-In: Carve-in refers to the inclusion or adoption of certain requirements or principles from a standard or framework into the Indian Accounting Standards. It involves incorporating provisions or guidance from a different accounting standard or framework to ensure consistency or align with international practices. Carve-in may be necessary when adopting IND AS to ensure that the accounting standards of a country are in line with globally accepted principles.

Carve-Out: On the other hand, carve-out refers to the exclusion or modification of specific requirements or principles from existing accounting standards when adopting IND AS. Carve-outs are implemented when certain provisions or principles of the existing standard are considered not relevant or inappropriate for the Indian context. It allows for tailoring the accounting standards to better suit the needs of Indian entities while still maintaining overall consistency with international standards.

The purpose of carve-ins and carve-outs is to strike a balance between global harmonization of accounting standards and accommodating local regulatory requirements or business practices. These adjustments help ensure that the accounting standards are practical and relevant for the entities operating in India while maintaining comparability and transparency in financial reporting

8 *Convergence of IFRS in India*

Q. 8.1	Practice Question	Descriptive
What process has been adopted for Convergence to IFRS in India?		

Answer:

In India, the ICAI has worked towards convergence of global accounting standards by considering the application of IFRS in Indian corporate environment.

The process of convergence to International Financial Reporting Standards (IFRS) in India has been undertaken through the following steps:

1. **Setting up of Accounting Standards Board (ASB):** The Accounting Standards Board (ASB) was established in 1977 under the Institute of Chartered Accountants of India (ICAI). The ASB is responsible for formulating accounting standards in India.
2. **Development of Indian Accounting Standards (Ind AS):** The ASB developed the Indian Accounting Standards (Ind AS) in alignment with IFRS, with necessary modifications to suit the Indian business environment and legal requirements. The Ind AS are designed to enhance the quality, comparability, and transparency of financial statements.
3. **Phase-wise adoption:** The adoption of Ind AS in India was done in a phased manner to ensure smooth transition and implementation. The Ministry of Corporate Affairs (MCA) announced a roadmap for the implementation of Ind AS, initially targeting listed companies and certain specified entities.

4. **Convergence with IFRS:** The Ind AS were developed with the objective of converging with IFRS. The ASB has been working closely with the International Accounting Standards Board (IASB) to maintain convergence and to ensure that the Ind AS remain consistent with IFRS. The ASB regularly updates and aligns the Ind AS with new and revised IFRS issued by the IASB.
5. **Regulatory framework:** The MCA plays a crucial role in the convergence process. It issues notifications and amendments to the Companies Act, 2013, to incorporate the adoption and implementation of Ind AS. The MCA also provides guidance and clarifications on various aspects of Ind AS through notifications, circulars, and frequently asked questions (FAQs).
6. **Training and capacity building:** To facilitate the smooth adoption and implementation of Ind AS, extensive training and capacity-building initiatives have been undertaken. The ICAI, professional accounting bodies, and various training institutes offer programs, workshops, and certifications to educate professionals, accountants, auditors, and other stakeholders about Ind AS and its application.

Overall, the process of convergence to IFRS in India involves the formulation of Ind AS, phased adoption, continuous alignment with IFRS, and regulatory support from the MCA. This convergence aims to enhance the quality and comparability of financial reporting in India and promote global consistency in accounting standards.