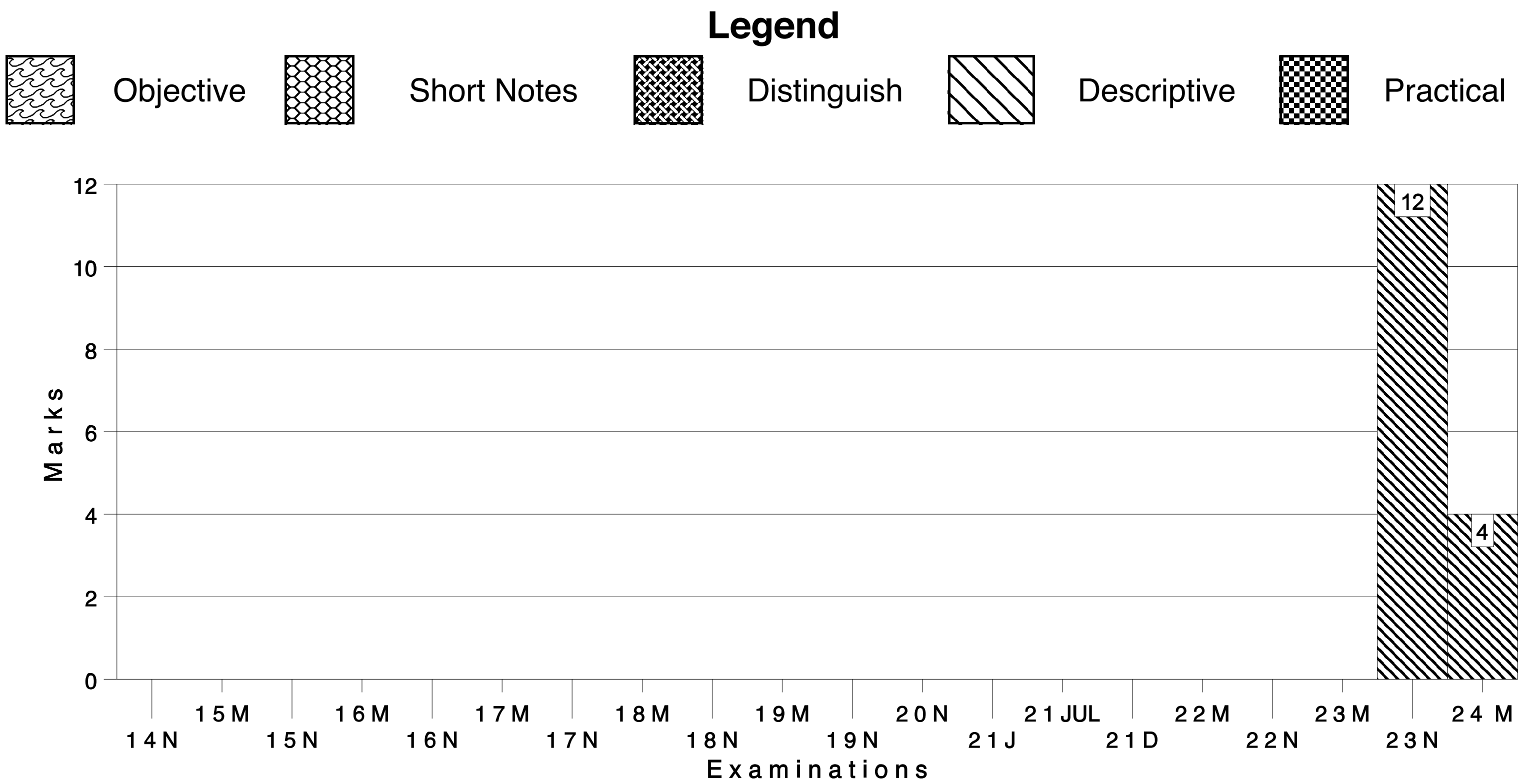
Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions



CHAPTER	
1	**Introduction to Indian Accounting Standards**

THIS CHAPTER COMPRISES OF

1. Indian Scenario prior to introduction of Ind AS in India
2. Limitations of Accounting Standards
3. Emergence of Global Accounting Standards
4. Need for Global Accounting Standards in India
5. Convergence vs Adoption of IFRS
6. Transition from AS to Ind AS
7. Roadmap for applicability of Ind AS
8. Ind AS relevant Statutory Provisions

DESCRIPTIVE QUESTIONS

2008 - June [2] (a) "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.

2013 - Dec [2] (e) 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) 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:**
   (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).

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

Answer:

Accounting Standards

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:

1. **Recognition:** Accounting Standards should recognise the transactions and events in the financial statement.
2. **Measurement:** Accounting standards measure these transactions and events.
3. **Presentation:** Presentation of these transactions and events in financial statements, in a meaningful and understandable manner.
4. **Disclosure:** Requires disclosure in financial statements.

2022 - Nov [6] (e) Answer the following:

Explain the objective of 'Accounting Standards' in brief. State the advantages of setting Accounting Standards. (5 marks)

Answer:

Accounting Standards are the written policy documents issued by government of expert accounting bodies covering the aspect of measurement, treatment, presentation and disclosure of accounting transactions and events.

Following are the objectives of Accounting Standards:

(a) Accounting Standards harmonize the diverse accounting policies and practices followed by different companies in India.

(b) Accounting Standards facilitates the preparation of financial statements and make them comparable.

(c) Accounting Standards give a sense of faith and realiability to the users.

The main advantage of setting Accounting Standards are as follows:

(a) Accounting Standards makes the financial statements of different companies comparable which helps investors in decision making.

(b) Accounting Standards prevent any misleading accounting treatment.

(c) Accounting Standards prevent manipulation of data by the management.

2023 - Nov [4] (b) Discuss the cost constraint on useful financial information. (6 marks)

Answer:

Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.

Both the providers and users of financial information incur costs in reporting and analysing financial information. In applying the cost constraint, the ICAI assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. When applying the cost constraint in formulating a proposed Ind AS, the ICAI seeks information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that Ind AS. In most situations, assessments are based on a combination of quantitative and qualitative information.

Because of the inherent subjectivity, different individual's assessments of the costs and benefits of reporting particular items of financial information will vary. Therefore, ICAI seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities.

2023 - Nov [4] (Or) (b) Discuss the characteristics of good financial statements. (6 marks)

Answer:

Characteristics of good financial information are:

1. **Relevance:** "Relevant financial information" is financial information with (a) predictive value or (b) confirmatory value or both, makes it capable

of making a difference in decisions made by users, makes it relevant financial information.

Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value. Financial information with predictive value is employed by users in making their own predictions.

Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

The characteristic of 'relevance' also includes the concept of materiality. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity.

2. **Faithful Representation:** To be useful, financial information must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.

To be a perfectly faithful representation, a depiction would have following three characteristics:

- **Complete:** A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.
- **Neutral:** A neutral depiction is without bias in the selection or presentation of financial information.
  Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated.
- **Free from error:** Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors

in the process. In this context, free from error does not mean perfectly accurate in all respects.

2024 - May [5] (Or) (c) List out the entities which were covered under Phase I & II under the Companies (Indian Accounting Standards) Rules 2015 as notified by the MCA along with the specific date of coverage with its exclusions, if any. (4 marks)

Repeatedly Asked Questions		
No.	**Question**	**Frequency**
1	Discuss the characteristics of good financial statements. 19 - Nov [6] (c), 21 - Dec [6] (b)	2 Times