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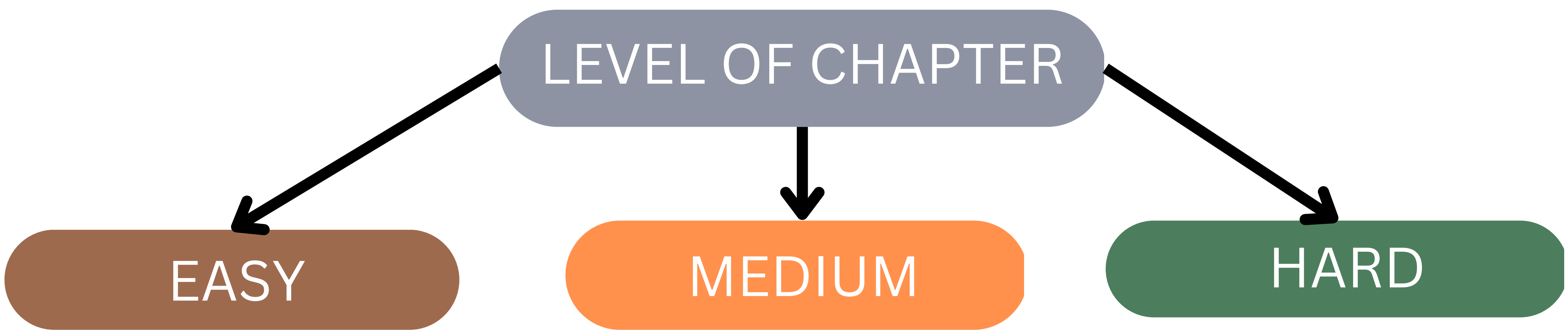
ACCOUNTING STANDARDS



Accounting Standards

An accounting standard is a set of written rules that govern the accounting process. The ICAI, which is our country's accounting professional body, issued accounting standards. Unification of accounting standards eliminates non-comparability and improves financial statement reliability. Sets basic accounting policies and disclosure requirements. Accounting standards increase intra and inter-enterprise comparability. A firm's success is commonly assessed using such comparisons.

- **Accounting standards are written statements of standardised accounting rules and procedures used in practice to ensure that financial statements are prepared in a uniform and consistent manner**
- **In other words, accounting standards are a collection of norms that businesses must follow, established by legislation, statute, or a professional organisation**
- **In no way can these standards take precede over the provisions of applicable laws, and the business environment in a given jurisdiction**

Importance of Accounting Standards

- **Accounting makes information available to a wider range of information users**
- **Accounting information can serve the interests of diverse users if it is standardised and contains all of the important information in its entirety**
- **Alternative accounting treatment and valuation standards are available to corporate entities that are specifically applicable**
- **Accounting standards broaden the scope of those alternatives that meet the fundamental qualitative attributes of a true and fair view of the financial statements while maintaining the integrity of the financial information**

The Benefit of Accounting Standards

- **They establish the standards on which financial statements should be prepared and provide guidance on how**
- **Because they are dependable, it instils confidence in the minds of those who use accounting information**
- **It assists accountants in adhering to uniform accounting principles and assists auditors in conducting audits**
- **It guarantees uniformity in creating and presenting financial statements by adhering to a set of standardised procedures and processes**

Generally Accepted Accounting Principles (GAAP)

- The General Accepted Accounting Principles are some typical accounting techniques that have gained global acceptability
- These accounting principles define terms, treat ambiguous entries, and even prescribe industry-specific regulations and procedures
- GAAP exists to ensure basic consistency in financial statements across all enterprises
- It helps external users of financial statements understand a company's accounts
- GAAP also allows intra- and inter-firm comparisons, which aids investors
- Imposing GAAP also ensures that the financial statement depiction is truthful and fair
- These rules will prevent management from tampering with accounts
- The fairness of the financial accounts is assured if GAAP regulations are strictly observed
- But there is no universal accounting code
- GAAP is not global
- Geographical locations, industries, and accounting bodies all have GAAP details
- Because of this, several countries and accounting authorities tailor GAAP to their industry and economy

International Financial Reporting Standards (IFRS)

- The name is self-explanatory
- IFRS is an international standard for accounting and financial reporting
- The International Accounting Standards Board (IASB) is an independent accounting organisation situated in London (IASB)
- As we all know, several countries have their GAAP
- Each country has its own GAAPs. India has IAS. Unanimity is lacking
- It also affects multinational corporations with branches worldwide
- So the IFRS was created to provide a global accounting standard
- Around 120 nations now use IFRS. Soon, more will follow
- As a result, all companies worldwide will report their accounts following the same rules
- As a result, nations will be more compatible and uniform
- India has yet to embrace IFRS for its domestic or foreign enterprises
- But, following worldwide trends, this will happen soon

Indian Accounting Standard (Ind-AS)

- The Institute of Chartered Accountants of India (ICAI) published Indian Accounting Standards (IAS), which are used in the country's financial reporting (ICAI)
- These are similar to International Financial Reporting Standards (IFRS) and are titled and numbered comparable to the IFRS
- They are based on and adapted from the generally accepted accounting principles (GAAP), with adjustments necessary for the Indian economy
- These standards deal with accounting issues in dispute, and they specify the accounting treatment, rules, and directions that must be followed
- They are comprehensive to prevent any confusion or uncertainty
- There are a total of 32 Indian Accounting Standards in existence

Applicability of Accounting Standards

Accounting standards apply to all organisations, except those that are solely charitable and do not engage in any commercial, industrial, or business activity –

- Sole proprietorship
- Partnership firm
- Societies
- Trusts
- Hindu undivided family
- Association of persons
- Cooperative societies
- Companies
- International Financial Reporting System

Limitation of Accounting Standards

- The application of accounting standards decides between different alternative accounting treatments difficult
- It is strictly adhered to and does not allow for greater flexibility in the application of accounting standards
- The accounting standard does not have the authority to override the statute
- The standards are required to be farmed within the confines of the current legal framework