



# Accounting Standards

# AGENDA OF DISCUSSION

- Introduction of Accounting Standards
- Objectives of Accounting Standards
- Types of Accounting Standards

# Introduction

- Written Documents issued by Government or Regulatory Body
- In India, issued by ICAI on 21<sup>st</sup> April, 1977
- Initiated by Kumar Mangalam Birla, chairman committee of Corporate Governance for Financial Disclosures
- Also initiated by Chair person of NACAS

# Objectives

- Standardise the diverse Accounting Policies
- Add the reliability to the Financial Statement
- Eradicate baffling variation in treatment of accounting aspects
- Facilitate inter-firm and intra-firm comparison

# Accounting Standards in Different Nations

- In India, 32 Accounting Standards as IAS under NACAS
- As per International, there are 41 Accounting Standards called as IFRS
- Adopted by 8 countries in the world
- 70 to 80 countries planning to adhere IFRS
- Clause 50 added to the listing agreement mandatory

# Evolution and Types of AS

Accounting Standards	Initiation
1. AS 1 to AS 15	1979 to 1995
2. AS 16 to AS 29	2000 to 2007
3. AS 30 to AS 32	Later part of 2007

# AS 1-Disclosure of Accounting Policies

- Specific policies adapted to prepare FS
- Should be disclosed at one place

Purpose :-

1. Better understanding of FS
2. Better comparison analysis
3. Mostly needed w.r.t Depreciation

# AS 2- Accounting for Inventories

- Used for computation of Cost of inventories and to show in BS till it is sold

Consists of :-

1. Raw Materials
2. Work in progress
3. Finished goods
4. Spares, etc



# Measurements of Inventories

- Determination of Cost of Inventories
  - Cost of purchase (Purchase price, duties & taxes, freight inwards)
  - Cost of conversion
- Determination of Net realisable value
- Comparison of cost and net realisable

# AS 3- Cash Flow Statements

- Incoming and outgoing of cash
- Act as barometer to judge surplus and deficit
- Explain Cash flow under 3 heads :-
  1. Cash flow from operating activities
  2. Cash flow from financing activities
  3. Cash flow from investing activities

## AS 4- Contingencies and events occurring after BS date

- For maintaining Provision of Bad debts
- Generally uses Conservative concepts of Accounting like Bankruptcy, frauds & errors.

# AS 5- Net profit or loss for the period, prior period items and change in Accounting policies

- Ascertain certain criteria for certain items
- Include income and expenditures of Financial year
- Consists of 2 component
  1. Profit and loss of ordinary activities
  2. Profit and loss of extra ordinary activities

# AS 6- Accounting for Depreciation

- A non-cash expenditure
- Distribution of total cost to its useful life
- Occurs due to obsolescence
- Different methods of computation
  1. Straight line method ( SLM )
  2. Written-down value or diminishing value (WDV)

# AS 7- Construction Contract

- Contract specifically negotiated for construction of Asset or combination of Assets closely inter-related

# AS 8- Accounting for R&D

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

# AS 9- Revenue Recognition

- Means gross inflow of cash and other consideration like arising out of :-
  1. Sale of goods
  2. Rendering services
  3. Use of enterprise resources by other yielding interest, dividend and royalties.



# AS 10- Accounting for Fixed Assets

- Called as Cash generating Assets
- Expected to used for more than a Accounting period like land, building, P/M, etc
- Shown at either Historical or Revalued value

# AS 11- Effect of change in FOREX Rates

- Classification for Accounting treatment:-
  1. Category I: Foreign currency transactions:
    - a) buying and selling of goods or services
    - b) lending and borrowing in foreign currency
    - c) Acquisition and disposition of assets
  2. Category II: Foreign operations:
    - a) Foreign branch
    - b) Joint venture
    - c) Foreign Subsidiary
  3. Category III: Foreign Exchange contracts:
    - a) For managing Risk/hedging
    - b) For trading and Speculation

# AS 12- Accounting for Govt. Grants

- Assistance provided by Govt. in cash or in kind like
  1. Grants of Assets like P/M, Land, etc
  2. Grants related to depreciable FA
  3. Tax exemptions in notified area

# AS 13- Accounting for Investments

- Assets held for earning incomes like dividend, interest, rental for capital appreciation, etc
- It involves:-
  1. Classification of Investment
  2. Cost of Investment
  3. Valuation of Investment
  4. Reclassification of Investment
  5. Disposal of Investment
  6. Disclosure of Investment in FS

# AS 14- Accounting for Amalgamation

- Section 391 to 394 of Companies Act, 1956 governs the provision of amalgamation.
- Disclosures:
  1. Names and nature of amalgamating companies
  2. Effective date of amalgamation
  3. Method of Accounting used
  4. Particulars of scheme sanctioned under a statute

# AS 15- Employees Benefits

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

# AS 16- Borrowing Costs

- Interest and cost incurred by an enterprise in connection to the borrowed funds.
- Available for acquiring building, installed FA to make it useable and saleable.

# AS 17- Segment Reporting

- It consists of 2 segment:-
  1. Business segment
  2. Geographical segment
- Information and different risk and return reporting.



# AS 18- Related party disclosure

- Related party are those party 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. Amt written off in the period in respect of debts

# AS 19- Accounting for Leases

- Agreement between Lessor And Lessee
- Two types of leases:
  1. Operating lease
  2. Finance lease
- Different from Sale
- Classification to be made at the inception

# AS 20- Earning per share

- Earning capacity of the firm
- Assessing market price for share
- AS gives computational methodology for determination and presentation of EPS
- 2 types of EPS

# AS 21- Consolidated Balance Sheet

- Accounting for Parent and Subsidiary company in single entity
- Disclosure:-
  1. List of all subsidiaries
  2. Proportion of ownership interest
  3. Nature of relation whether direct or indirect

# AS 22- Accounting for taxes and income

- 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

## AS 23- Accounting for investments in Associates in CFS

- 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.

# AS 24- Discontinuing operations

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

# AS 25-Interim Financial Reporting (IFR)

- 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



# AS 26- Intangible Assets

- No physical existence
- Can not be seen or even touched
- 3 featured as per AS
  1. Identifiable
  2. Non-monetary assets
  3. Without physical substance

# AS 27- Financial Reporting of interest in Joint Venture

- What is joint venture?
- Three types of JV in case of Financial reporting

# AS 28- Impairment of Assets

- Weakening of Assets value
- Occurs when carrying cost more than recoverable amt
- Carrying cost = Cost of assets – Accumulated Depreciation

# AS 29- Provision, contingent liabilities and assets

- Provisions:-
  - It is a Liability
  - Settlement should result in outflow
  - Liability is result of obligating event
- Contingent liabilities:-
  - Obligation arises of past event
  - Existence confirmed when actually occurred of uncertain future
- Contingent Asset
  - Same as Contingent liability

# Financial Instruments

- AS 30 – Recognition and Measurement
- AS 31 – Presentation
- AS 32 – Disclosures
- Has not been made mandatory (expected in 2009)



THANK YOU