

ACCOUNTING STANDARDS – AN INTRODUCTION

“ACCOUNTING is the language of business.”

“Accounting” has been in existence ever since the dawn of civilization where a person in the settlement wanted to keep track of his belongings and ensure a legal claim on his holdings – be it land or livestock. However, Fra Luca Bartolomeo de Pacioli (1445-1517) has been regarded as the father of modern accountancy for his noteworthy works describing the system of book-keeping i.e. the double-entry accounting system which is widely accepted across the business world even today!

As time progressed, a natural evolution in accounting became evident. Industrial revolution and voluminous transactions in a complex financial and business environment led to need-based accounting, specific to the nature of transactions involved. The pressing demand for uniform accounting standards was felt in early 1930s post the Wall Street crash and the following Great Depression post the economic boom of 1920s.

‘Accounting Standards’ constitute the basic principles and procedures covering aspects of recognition, measurement, treatment and disclosure of accounting transactions in the financial statements. Conformity with Accounting Standards reduces or even eliminates the diverse practices and enhances comparability and comprehensibility of financial statements.

Today there exists a plethora of accounting standards issued by accounting standard-setting bodies to cater to the entities within the geographical boundaries of the nation. To name a few,

COUNTRY	STANDARD-SETTING BODY	STANDARDS ISSUED
Australia	Australian Accounting Standard Board	Australian Accounting standard
India	Accounting Standards Board	Accounting Standards
United Kingdom	UK Accounting Standards Board	UK GAAP(Generally Accepted Accounting Principles)
USA	Financial Accounting Standards Board(FASB)	US GAAP

With accounting being the only language used across the world for recording-in-print the financial details, the need to make it intelligible beyond the country borders has become a challenge to the national accounting-regulatory and standard-setting bodies. International Accounting standards Committee(IASC) established in 1973 issued International Accounting Standards(IAS). But success to the extent desired was not secured due to lack of international consensus, lack of strict compliance framework and various other reasons. In 2001, International Accounting Standards Board(IASB) took over the responsibility from IASC and since then, IASB has issued International Financial Reporting Standards (IFRS).IFRS, unlike IAS is being widely accepted as an international standard and various nations have already

adopted/are in the process of revising their accounting standards to ensure compatibility with IFRS.

ACCOUNTING STANDARDS (AS) IN INDIA:

➤ **AS issued by ICAI:**

Accounting Standards Board established by Institute of Chartered Accountants of India (ICAI) for formulation of accounting Standards. As on date, there are 32 Accounting Standards which have been issued by ICAI (of which AS 8 has been withdrawn). In general these Accounting Standards apply to enterprises engaged in commercial, industrial or business activities, irrespective of whether they are profit oriented or not. However the date and extent of applicability of individual accounting standard is specified by further classification of these enterprises into three categories-Level I, Level II and Level III enterprises.

➤ **AS as per Companies Act, 1956:**

In exercise of the powers conferred by Section 642(1)(a) of the Companies Act, 1956 read with Section 211(3C) and Section 210A of the Act, the Central Government in consultation with National Advisory Committee on Accounting Standards (NACAS), has notified Companies (Accounting Standards) Rules, 2006. Accordingly the Central government has prescribed AS 1 to 7 and 9 to 29 as issued by the ICAI. However a Small and Medium Sized Company as has been defined in the Rules is eligible for exemption or relaxation until the company remains an SMC for two consecutive accounting periods.

About 35 Accounting Standards termed as Indian Accounting Standards (IND ASs) have been hosted by MCA on its website. The date on which these will come into force is yet to be notified and hence is not applicable as on date.

➤ **AS as per Income Tax Act, 1961:**

The Central Board Of Direct Tax (CBDT) has notified two accounting standards vide notification dated 25.1.1996 in terms of the provisions under section 145(2) of the Income Tax Act - Accounting standard I relating to Disclosure of Accounting Policies and Accounting Standard II relating to Disclosure of Prior Period and Extraordinary Items and Changes in Accounting Policies. These Accounting Standards are to be followed by all assesseees following the mercantile/accrual system of accounting.

In general, the mandatory Accounting Standards (as issued by ICAI) are applicable to financial statements and other financial reporting which are statutorily required to be audited under any law (including audit covered under Sec 44AB of Income Tax Act, 1961)

Though this is a very vast topic, an attempt has been made to give a brief introduction by highlighting the key aspects relating to origin and evolution of Accounting Standards. Future issues will focus on individual Accounting Standards.

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