

Accounting
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As of 2010, the Institute of Chartered Accountants of India has issued 32 Accounting Standards. These are numbered AS-1 to AS-7 and AS-9 to AS-32 (AS-8 is no longer in force since it was merged with AS-26). Compliance with Accounting Standards Issued by CIA has become a statutory requirement with the notification of Companies (Accounting Standards) Rules, 2006 by the Government of India. Before the constitution of the National Advisory Committee on Accounting Standards (NANAS), the institute was the sole accounting standard setter in India.

However NANAS is not an independent body. It can only consider Accounting Standards recommended by CIA and advise the Government of India to notify them under the Companies Act, 1956. Further the accounting standards so notified are applicable only to companies registered under the Companies Act, 1956. For all other entities the accounting standards issued by the CIA continue to apply. Accounting Concepts Accounting concepts are broad general assumptions with which underlie the periodic financial accounts of business enterprises.

The reason why some of these ideas should be called concepts is that they are basic assumptions and have a direct bearing on the quality of financial accounting information. The accounting concepts are as follows: 1. Business Entity Concept In accounting we make a distinction between business and the owner. All the records are kept from the viewpoint of the business rather than from that of the owner. An enterprise is an economic unit separate and apart from the owner or owners. As such, transactions of the business and those of the owners should be accounted for and reported separately.

This implies that owner's personal and household expenses or obligations will not appear in the books of account. One reason for this distinction is to make it possible for the owners to have an account of the performance from those who manage the enterprise. The managers are entrusted with funds supplied by owners, banks and others: they are responsible for the proper use of the funds. Has been discharged. 2. Money Measurement Concepts In accounting, only those facts which can be expressed in terms of money are recorded.

As money is accepted not only as a medium of exchange but also as a store of value, it has a very important advantage since a number of widely different assets and equities can be expressed in terms of a common denominator. 3. Going Concern Concept Accounting assumes that the business will continue to operate for a long time in the future unless there is good evidence to the contrary. The enterprise is viewed as a going concern, that is, as continuing in operation, at least in the foreseeable future.

The owners have no intention nor have they the necessity to wind up or liquidate its operations. The assumption that the business is not expected to be liquidated in the foreseeable future, in fact, establishes the basis for many of the valuations and allocations in accounting. For example, depreciation procedures rest upon this concept. It is this assumption which underlies the decision of investors to commit capital to enterprise. The concept holds that continuity of business activity is the reasonable expectation for the business unit for which the accounting function is being performed.

Only on the basis of this assumption can the accounting process remain stable and achieve the objective of correctly recording and reporting on the capital invested, the efficiency of management, and the position of the enterprise as a going concern. 4. Cost Concept This concept states that an asset is worth the price paid for or cost incurred to acquire it. Thus, assets are recorded at their original purchase price and this cost is the basis for all subsequent accounting for the assets. The assets shown on the financial statements do not necessarily indicate their present market worth.

As such, there is no relationship between depreciation and changes in market value of the assets. The purpose of depreciation is to allocate the cost of an asset over its useful life and not to adjust its cost so as to bring it closer to the market value. 5. Accrual Concept The accrual concept makes a distinction between the receipt of cash and the right to receive it, and the payment of cash and the legal obligation to pay it. In actual business operations, the obligation to pay and the actual movement of cash may not coincide.

In connection with the sale of goods, revenue may be received (i) before the right to receive arises, or (ii) after the right to receive has been created. The accrual concept provides a guideline to the accountant as to how he should treat the cash receipt and the rights related thereto. In the former case the receipt will not be recognized as the revenue of the period for the reason that the right to receive the same has not yet arisen. In the latter case the revenue will be recognized even though the amount is received in the subsequent period.

Similar treatment would be given to expenses incurred by the firm. Cash payments for expenses may be made before or after they are due for payment. Only those sums which are due and, payable would be treated as expenses. If a payment is made in advance (I. E. It does not belong to the accounting period in question) it will not be treated as an expense, and the person who received the cash will be treated as a debtor until his right to receive the cash has matured. Where an expense has-been incurred during the and the person to whom the payment should have-been made is shown as a creditor. . Conservation Concept The concept of conservatism, also known as the concept of prudence, is often stated as “ anticipate no profit, provide for all possible losses”. This means an accountant should follow a cautious approach. He should record lowest possible value for assets and revenues, and the highest possible value for liabilities and expenses. According to this concept, revenues or gains should be recognized only when they are realized in the form of cash or assets (usually legally enforceable debts) the ultimate cash realization of which can be assessed with reasonable certainty.

Further, provision just be made for all known liabilities, expenses and losses whether the amount of these is known with certainty or is at best an estimate in the light of the information available. Probable losses in respect of all contingencies should also be provided for. 7. Materiality Concept There are many events in business which are trivial or insignificant in nature. The cost of recording and reporting such events will not be Justified by the usefulness of the information derived.

Materiality concept holds that items of small significance need not be given strict theoretically correct treatment. Whether a particular item or currency is material or not, should be determined by considering its relationship to other items and the surrounding circumstances. 8. Consistency Concept The consistency concept requires that once a company has decided on one method and has used it for some time, it should continue to follow the same method or procedure for all subsequent events of the same character unless it has a sound reason to do otherwise.

If for valid reasons the company makes any departure from the method it has been following so far, then the effect of the change must be clearly stated in the financial statements in the year of change. The consistency concept requires that once a company has decided on one method and has used it for some time, it should continue to follow the same method or procedure for all subsequent events of the same character unless it has a sound reason to do otherwise.

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The requirements of these parties therefore force the accountant to report for the changes in the wealth of a firm for short time periods. These time periods in actual, practice vary, though a year is the most common interval as a result of established business practice, tradition and government requirements. Some firms adopt calendar year, some others financial year of the government. The custom of single twelve-month period is applied only for external reporting. The firms usually adopt a shorter span of interval, say one month or three months, for internal 10.

Dual Aspect Concept reporting purposes. Dual aspect is the foundation or basic principle of accounting. It provides the very states that every transaction has a dual or two-fold effect and should therefore be recorded at two places. In other words, at least two accounts will be involved in recording a transaction. Dual aspect concept from the core of accounting and hence it is very important concept which one should always keep in mind while handling books of accounts. 11.

Matching Concept According to this concept all the expenses incurred in the accounting period is compared with the revenues earned during the period to find out the profits or losses incurred during the year. Amounts received or receivable for the sale of output are called revenues. All the expenses such as salary, raw material and labor which are incurred in relation to the production of goods are the expenses. 12. Verifiable Objective Concept According to this concept all the accounting transactions should be supported by business documents. Eg: invoices, vouchers, correspondence.

These supporting documents could be verified by the certified auditors of the company. The evidence supporting the transaction should be objective evidence.

13. Disclosure Concept Accounting policies need to be disclosed because they help understand the basis of accounting. Details of contingent liabilities, contingent assets, legal proceedings, etc. Are also relevant to the decision making of users and hence need to be disclosed. Significant events occurring after the date of the financial statements but before the issue of financial statements (I. E. Vents after the balance sheet date) need to be disclosed. Details of property, plant and equipment cannot be presented on the face of the balance sheet, but a detailed schedule outlining movement in cost and accumulated depreciation should be presented in the notes.

14. Realization Concept The realization concept deals with the determination of the time period of when the revenues are earned. According to this concept revenue is realized only when the goods are transferred to the customer either for cash or for a promise to pay cash in the future.

Objectives of Accounting Standards 1.

To keep systematic records: Accounting is done to keep a systematic record of financial transactions. In the absence of accounting there would have been terrific burden on human memory which in most cases would have been impossible to bear.

2. To protect business properties: Accounting provides protection to business properties from unjustified and unwarranted us. This is possible on account of accounting supplying the information to the manager or the proprietor.

3. To ascertain the operational profit or loss: Accounting helps in ascertaining the net profit earned or loss suffered on account of carrying the business.

This is done by keeping a proper record of revenues and expenses of a particular period. The profit and loss account is prepared at the end of a period and if the amount of revenue for the period is more than the expenditure incurred in earning that revenue, there is said to be a profit. In case the expenditure of business: The profit and loss account gives the amount of profit or loss made by the business during a particular period. However, it is not enough. The businessman must know about his financial position I. E. , where he stands; what he owes and what he owns?

This objective is served by the balance sheet or position statement. 5. To facilitate rational decision making: Accounting these days has taken upon itself the task of collection, analysis and reporting of information at the required points of time to the required levels of authority in order to facilitate rational decision making. Benefits of Accounting Standards 1 . Protecting the investors By employing the accounting standards, investors' interests are ensured as the documents they review are definitely accurate and genuine. As investors they are interested to know that their money will eventually earn and go back to them.

Accounting standards will increase the investors' confidence. 2. Regulatory compliance Government regulators set accounting standards that have to be adhered by all the companies. This is both beneficial to the investor as well as the customers or clients because it protects them from the frauds in business. It also promotes transparency among business' transactions which will eventually lead to the improved efficiency of the markets. 3. Assessing business performance The use of accounting standards will enable a business to see or asses its performance.

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By doing so, they can also compare and contrast their business' performance with the other companies. It further helps a business see its strengths and weaknesses. By also comparing past and current performances, a business can also assess the success of its strategies. Limitations of Accounting Standards

1. Financial accounting is of historical nature: Net effect of transactions are recorded in financial accounting which has happened in past. These accounts are just postmortem of all events of business in past. These records do not help for future planning and other managerial decisions.

Financial accounting shows the profitability of business but it is failure to tell that is it good or bad. Financial accounting is also failure to know the reasons of low profitability sections.

2. Financial accounts deal with overall profitability: position.
3. Absence of full disclosure of facts: In financial accounting we record only those activities and transactions which we can show or describe in money. There are many other facts of business which are non-quantifiable, such as good relations in industry, good working environments which cannot be known by financial accounting.

Financial reports are interim reports: Financial statements made by financial accounting is the interim report of firm's all business work but financial position and profitability which are shown in it is not fully true. Due to adopting cost concept, all transactions are recorded on their real cost but by changing in the time; it is the need of time to adjust cost of assets and liabilities according to inflation of market. Because, financial accounting does not record according to inflation so its result does not show true position of business.

- 5.

Incomplete knowledge of cost: From cost point of view, financial accounting is incomplete. In financial accounting, accountant does not calculate each and every product's total cost. So, financial accounting does not help to determine the price of product of business. . No provision of cost control: Financial accounting does not help business organization for controlling the cost. There is no provision of controlling cost in it. In financial accounting, we write cost, if we paid any expenses. Thus there is no provision of improvement in financial accounting. Except this, there is no any other way to inspect all expenses. . Financial statements are affected from personal Judgments: Many events of financial statements are affected from personal Judgment of accountant. Method, rate of provision of doubtful debts and valuation method are decided by accountant. Thus, financial statements do not show true and fair view of business. The Accounting Standards of India The Institute of Chartered Accountants of India (CIA) being a member body of the IAC, constituted the Accounting Standards Board (JAB) on 21st April, 1977, with a view to harmonies the diverse accounting policies and practices in use in India.

After the avowed adoption of liberalizing and globalization as the corner stones of Indian economic policies in early ' ass, and the growing concern about the need of effective corporate governance of late, the Accounting Standards have increasingly assumed importance. While formulating accounting standards, the JAB takes into consideration the applicable laws, customs, usages and business environment prevailing in the country.

The JAB also gives due consideration to International Financial Reporting

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SAAB and tries to integrate them, to the extent possible, in the light of conditions and practices prevailing in India. Indian Accounting Standard (Mind AS) 1 : Presentation of Financial Statements Objective: This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Scope: financial statements in accordance with Indian Accounting Standards (Mind ASs). *Other Mind ASS set out the recognition, measurement and disclosure requirements for specific transactions and other events. *This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with Mind AS 34 Interim Financial Reporting. However, paragraphs 15-35 apply to such financial statements.

This Standard applies equally to all entities, including those that present consolidated financial statements and those that present separate financial statements as defined in Mind AS 27 Consolidated and Separate Financial Statements. *This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they may need to amend the descriptions used for particular line items in the financial statements and for the financial statements

themselves. Similarly, entities whose share capital is not equity may need to adapt the financial statement presentation of members' interests. General <https://assignbuster.com/accounting-standards-introduction-to-accounting-standards-analysis-flashcard/>

features: *Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity.

Presentation of true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, abilities, income and expenses set out in the Framework.

The application of Mind ASs, with additional disclosure when necessary, is presumed to result in financial statements that present a true and fair view.

*An entity whose financial statements comply with Mind ASS shall make an explicit and unreserved statement of such compliance in the notes. An entity shall not describe financial statements as complying with Mind Ass unless they comply with all the requirements of Mind ASs. *An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

Indian Accounting Standard (Mind AS) 7: Statement of Cash Flows

Information about the cash flows of an entity is useful in providing users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilities those cash flows. The economic decisions that are taken by users require an evaluation of the ability of an entity to generate cash and cash equivalents and the timing and certainty of their generation.

The objective of this Standard is to require the provision of information about the satirical changes in cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from

operating, investing and financing activities. Scope: *An entity shall prepare a statement of cash flows in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented. Users of an entity's financial statements are interested in how the entity generates and uses activities and irrespective of whether cash can be viewed as the product of the entity, s may be the case with a financial institution. Entities need cash for essentially the same reasons however different their principal revenue-producing activities might be. They need cash to conduct their operations, to pay their obligations, and to provide returns to their investors. Accordingly, this Standard requires all entities to present a statement of cash flows.

Benefits of cash flow information: *A statement of cash flows, when used in conjunction with the rest of the financial statements, provides information that enables users to evaluate the changes in net sets of an entity, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. Cash flow information is useful in assessing the ability of the entity to generate cash and cash equivalents and enables users to develop models to assess and compare the present value of the future cash flows of different entities.

It also enhances the comparability of the reporting of operating performance by different entities because it eliminates the effects of using different accounting treatments for the same transactions and events. *Historical cash flow information is often used as an indicator of the amount, timing and

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certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing prices.

Indian Accounting Standard (Mind AS) 10: Events after the Reporting Period

The objective of this Standard is to prescribe: (a) When an entity should adjust its financial statements for events after the reporting period; and (b)

The disclosures that an entity should give about the date when the financial statements were approved for issue and about events after the reporting period. The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

Scope: This Standard shall be applied in the accounting for, and disclosure of, events after the reporting period. Recognition and measurement: *An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting period. *The following are examples of adjusting events after the reporting period that require an entity to adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized: (a) The settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period.

The entity adjusts any previously recognized provision related to this court case in accordance with Mind AS 37 Provisions, Contingent Liabilities and Contingent Assets or recognizes new provision. The entity does not merely disclose a contingent liability because the settlement provides additional

evidence that would be considered in accordance with paragraph 16 of Mind AS 37. (b) The receipt of information after the period, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted.

For example: (I) the bankruptcy of a customer that occurs after the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the arraying amount of the trade receivable (it) the sale of inventories after the reporting period may give evidence about their net realizable value at the end of the reporting period. (c) The determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period. D) The determination after the reporting period of the amount of profit- sharing or bonus payments, if the entity had a present legal or constructive obligation at the end of the reporting period to make such payments as a result of vents before that date (see Mind AS 19 Employee Benefits). (e) The discovery of fraud or errors that show that the financial statements are incorrect. Indian Accounting Standard (Mind AS) 12: Income Taxes The objective of this Standard is to prescribe the accounting treatment for income taxes.

The principal issue in accounting for income taxes is how to account for the current and future tax consequences of: (1)The future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's balance sheet (2)Transactions and other events of the current period which are recognized in an entity's financial statements. Scope: *This Standard shall be applied in accounting for income taxes. *For the purposes of this

Standard, income taxes include all domestic and foreign taxes which are based on taxable profits.

Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or Joint venture on distributions to the reporting entity. Measurement: *Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. *Current and deferred tax assets and liabilities are usually measured using the tax rates (and tax laws) that have been enacted.

However, in some Jurisdictions, announcements of tax rates (and tax laws) by the government have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced tax rate (and tax laws). *When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average rates that are expected to apply to the taxable profit (tax loss) of the periods in which the temporary differences are expected to reverse.

The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases.

Scope: This Standard shall be applied in accounting for all leases other than:

(a) Leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (b) Licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

However, this Standard shall not be applied as the basis of measurement for:

(a) Property held by lessees that is accounted for as investment property (see Mind AS 40 Investment Property); (b) Investment property received by lessors under operating leases (see Mind AS 40 Investment Property); (c) Biological assets held by lessees under finance leases (see Mind AS 41 Agriculture 1); or (d) Biological assets provided by lessors under operating leases (see AS 41 Agriculture).

This Standard applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This Standard does not apply to agreements that are contracts for services that do not transfer the right to SE assets from one contracting party to the other.

Classification of leases: *The classification of leases adopted in this Standard is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

Risks include the possibilities of losses from idle capacity or technological obsolescence and of variations in return because of changing economic conditions. Rewards may be represented by the expectation of profitable operation over the asset's economic life and of gain from appreciation in

value or realization of a residual value. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. *Because the transaction between a lessor and a lessee is based on a lease agreement between them, it is appropriate to use consistent definitions. The application of these definitions to the differing circumstances of the lessor and lessee may result in the same lease being classified differently by them. For example, this may be the case if the lessor benefits from a residual value guarantee provided by a party unrelated to the lessee.