

# Standardization of Accounting Policies and Procedures - Its present status and Applicability Review

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**Abstract**—Globalization and Liberalization make the investing and funding boundary less and at the same time it also increase the financial risk so, Investors, Lenders and other interested parties who has stake or interest in the business enterprise needs true and fair view of the Financial statements and also want to intra-firm and Inter-firm comparison to build their confidence in the business in which Accounting Standards plays a vital role. This paper deals with the present status of Accounting Standards and their applicability in India and also explain the setting process of Accounting Standards their advantages and Limitations. It also deal about how the Central Government of India and ICAI defines the levels for the applicability of Accounting Standards upon the corporate and Non-Corporate entities and What types of exemptions and relaxation are provided to them.

## OBJECTIVES –

1. To find out the meaning, advantages and Limitations of Accounting standards.
2. To find out the Present status of Accounting Standards.
3. To know the process of Setting of Accounting Standards.
4. To find out the Applicability of accounting standards upon the Corporate and Non-Corporate Entities.

**Index Terms**— Creative Accounting, Accounting Standards, National Advisory Committee on Accounting Standards (NACAS), Ministry of Corporate Affairs MCA, Accounting Standard Board (ASB).

## I. INTRODUCTION

Due to the Liberalization and globalization the scope of business is not limited within the boundaries of the countries. Now a day's enterprises are trying to collect their capital from Foreign Markets also, which provides the businesses required amount of funds, not only to grow but also to sustain and maintain their business so, business enterprises tries to attract Foreign Investment in their business.

But at the same time, from the point of view of Investors, Lenders and other interested parties who has stake or interest in the business enterprise they want to build their confidence in the business and for that purpose they always try to do Intra and Inter business analysis and comparisons of

the financial statements of the said business. But for the exact and correct analysis and comparison it is necessary that the business enterprise should follow the same accounting policies and procedures in every Accounting year .

For the elimination of Non - Comparability of the Financial statements it is compulsory that business enterprise should follow Standardized Accounting Policies and procedures which are known as Accounting Standards .

In the other words, we can say the written policy documents notified and issued by the Government with the support of ICAI, MCA( Ministry of Corporate Affairs ), NACAS( National Advisory Committee Accounting Standards), SEBI, CA&AG, CBDT and other regulatory bodies are called Accounting Standards.

Basically, Accounting Standards deal about the recognition, measurement, presentation and disclosure of transactions and events taken place in the accounting period.

## Research Methodology

This research paper is based on the Descriptive type research. The secondary data is collected through various websites, books, journals and newspapers .

## Present Status of Accounting Standards

The Accounting Standard board as an independent body recommended the Accounting Standards to the council of ICAI and on the basis of such recommendations the council of ICAI has issued 29 Accounting Standards till date but later on two Accounting Standards AS 6 and AS 26 has been withdrawn so there are 27 Accounting Standards effective at present.

These are as follows-

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S.No	AS	Title	Effective Date
1	AS 1	Disclosures of Accounting Policies	1 <sup>st</sup> April 1993
2	AS 2	Valuation of Inventories (Revised)	1 <sup>st</sup> April 1999
3	AS 3	Cash flow statements	1 <sup>st</sup> April 2001
4	AS 4	Contingencies and events occurring after the balance sheet date (Revised)	1 <sup>st</sup> April 1998
5	AS 5	Net profit or loss for the period, prior period items and changes in accounting policies.	1 <sup>st</sup> April 1996
6	AS 6	Depreciation Accounting	Withdrawn with effect from 1 <sup>st</sup> April 2016
7	AS 7	Construction Contracts	1 <sup>st</sup> April 2002
8	AS 8	Research and Development	Withdrawn and included in As 26
9	AS 9	Revenue Recognition	1 <sup>st</sup> April 1993
10	AS 10	Property ,Plant and Equipment (Revised)	1 <sup>st</sup> April 2016
11	AS 11	The effect of change in foreign exchange rates	1 <sup>st</sup> April 2004
12	AS 12	Accounting for Government Grants	1 <sup>st</sup> April 1994
13	AS 13	Accounting for Investments (Revised)	1 <sup>st</sup> April 1995
14	AS14	Accounting for Amalgamation (Revised)	1 <sup>st</sup> April 1995
15	AS 15	Employee Benefits	1 <sup>st</sup> April 2006
16	AS 16	Borrowing Costs	1 <sup>st</sup> April 2000
17	AS 17	Segment Reporting	1 <sup>st</sup> April 2001
18	AS 18	Related Party Disclosures	1 <sup>st</sup> April 2001
19	AS 19	Leases	1 <sup>st</sup> April 2001
20	AS 20	Earnings Per share	1 <sup>st</sup> April 2001
21	AS 21	Consolidated Financial Statements( Revised)	1 <sup>st</sup> April 2001
22	AS 22	Accounting for taxes on income	1 <sup>st</sup> April 2001
23	AS 23	Accounting for Investment in Associates in Consolidated Financial Statements	1 <sup>st</sup> April 2002
24	AS 24	Discontinuing Operations	1 <sup>st</sup> April 2004
25	AS 25	Interim Financial Reporting	1 <sup>st</sup> April 2002
26	AS 26	Intangible Assets	1 <sup>st</sup> April 2003
27	AS 27	Financial Reporting of Interests in Joint Ventures.	1 <sup>st</sup> April 2002
28	AS 28	Impairment of Assets	1 <sup>st</sup> April 2008
29	AS 29	Provisions, Contingent Liabilities and Contingent Assets (Revised)	1 <sup>st</sup> April 2004

### II. APPLICABILITY OF THE ACCOUNTING STANDARDS

Whether the Accounting Standards will be applicable to the organization or not will depend on the law which is governing the organization make it mandatory or not.

For example- Section 129(1) of the Companies Act 2013 requires that for the preparation and presentation of Financial Statements should be as per the Accounting Standards notified under Section 133 of the Companies Act. Likewise Insurance Act 1938 and IRDA Act 1999 govern and explain upto what extent Accounting Standards will be applicable to the Insurance companies

Accounting Standards will be applicable to all types of organizations-

- Whether it's involved in business, Industrial and commercial activities or
- Whether profit - making and Non- profit making organization.

But if the organization is not engaged in any type of business, industrial or commercial activities then the

Accounting Standards will not be applicable to that organization. But such exclusion will be withdrawn if even a very small part of the organization activities come into the category of Business or Industrial or Commercial activities and Accounting Standards will be applicable to the whole organization and all activities will be covered by the Accounting Standards.

Accounting Standards will be applicable to those Financial items which are material and can change the economic decisions and whether the item is material or not it will depend upon the situation and the nature of the items .All material items should be shown separately and should not be clubbed with the other items .

It is to be noted that Accounting Standards for Non -Corporate entities are issued by the ICAI and For the Corporate entities are issued by the Central Government of India. As per the criteria for the Classification of entities and Applicability of Accounting Standards the ICAI divide the Non Corporate entities into three levels and the central Government of India divide Corporate entities into two levels .

<b>Criteria for the classification of entities and Applicability of Accounting Standards</b>		
By ICAI (For the Non Corporate entities)		
If any Entity is following in the below categories will be called Level 1 Entity.		
Level 1	1	Any entities whose Securities are Listed or proposed to be Listed in any Stock Exchange in India or Outside India
	2	Banks ,Co-operative Banks, Financial Institutions or Insurance Companies
	3	All Entities whose turnover excluding other Incomes in the immediate preceding financial Year is more than 50 crore
	4	All Entities whose borrowings including Public deposits in the immediate preceding financial Year is more than 10 crore
	5	Holding and subsidiary of the above Entities
If any Non –Corporate Entity is following in the below categories will be called Level II Entity .		
Level II SMEs	1	All Entities whose turnover excluding other Incomes in the immediate preceding financial Year is between 10 crore to 50 crore.
	2	All Entities whose borrowings including Public deposits in the immediate preceding financial Year is between 1 crore to 10 crore.
Entities which does not fall in Level I and Level II will be called Level III entities.		
Level III (SMEs)	Not a Level I and Level II entities.	

#### **Accounting Standards applicable to the Non-Corporate entities.**

Following accounting standards are applicable to all Non-Corporate entities these standard are applicable to all levels but some relaxation and exemption is given to the level II and level III entities

S.No	AS	Title	Effective Date
1	AS 1	Disclosures of Accounting Policies	1 <sup>st</sup> April 1993
2	AS 2	Valuation of Inventories (Revised)	1 <sup>st</sup> April 1999
3	AS 4	Contingencies and events occurring after the balance sheet date (Revised)	1 <sup>st</sup> April 1998
4	AS 5	Net profit or loss for the period, prior period items and changes in accounting policies.	1 <sup>st</sup> April 1996
5	AS 7	Construction Contracts	1 <sup>st</sup> April 2002
6	AS 9	Revenue Recognition	1 <sup>st</sup> April 1993
7	AS 10	Property ,Plant and Equipment (Revised)	1 <sup>st</sup> April 2016
8	AS 11	The effect of change in foreign exchange rates	1 <sup>st</sup> April 2004
9	AS 12	Accounting for Government Grants	1 <sup>st</sup> April 1994
10	AS 13	Accounting for Investments (Revised)	1 <sup>st</sup> April 1995
11	AS14	Accounting for Amalgamation (Revised)	1 <sup>st</sup> April 1995
12	AS 16	Borrowing Costs	1 <sup>st</sup> April 2000
13	AS 22	Accounting for taxes on income	1 <sup>st</sup> April 2001
14	AS 26	Intangible Assets	1 <sup>st</sup> April 2003

#### **Relaxation and Exemption available to the level II and level III entities**

For Level II

S.No	AS	Title	Effective Date
1	AS 3	Cash flow statements	1 <sup>st</sup> April 2001
2	AS 17	Segment Reporting	1 <sup>st</sup> April 2001

For Level III

S.No	AS	Title	Effective Date
1	AS 3	Cash flow statements	1 <sup>st</sup> April 2001
2	AS 17	Segment Reporting	1 <sup>st</sup> April 2001
3	AS 18	Related Party Disclosures	1 <sup>st</sup> April 2001
4	AS 24	Discontinuing Operations	1 <sup>st</sup> April 2004

Accounting Standards not applicable to all Non-corporate entities except some entities fall in level I

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1	AS 21	Consolidated Financial Statements	1 <sup>st</sup> April 2001
2	AS 23	Accounting for Investment in Associates in Consolidated Financial Statements	1 <sup>st</sup> April 2002
3	AS 27	Financial Reporting of Interests in Joint Ventures.	1 <sup>st</sup> April 2002

For the level II and level III entities there are also some relaxations regarding certain requirements (Some Paragraphs) of some accounting standards.

S.No	AS	Title	Exempted Paragraphs
1	AS 15	Employee Benefits	11-16,46and 139,50-116,129-131
2	AS 19	Leases	22(c),(e)and (f),25a,b,and e,37a and f,46 b and d
3	AS 20	Earnings Per share	Diluted Earnings per shares 48ii
4	AS 28	Impairment of Assets	121g
5	AS 29	Provisions, Contingent Liabilities and Contingent Assets	66 and 67
6	AS 25	Interim Financial Reporting	Interim Financial Results

By the central Government of India (For the Corporate entities)		
Level 1(SMCs)	1	A Company whose Securities are neither Listed or nor proposed to be Listed in any Stock Exchange in India or Outside India
	2	A Company which is not A Banks ,Co-operative Banks, Financial Institutions or Insurance Companies
	3	A Company whose turnover excluding other Incomes in the immediate preceding financial Year is not more than 50 crore
	4	A Company whose borrowings including Public deposits any time in the immediate preceding financial Year is not more than 10 crore
	5	A Company which is not a Holding and subsidiary of the small and medium-sized company
As per the clause 2(f) of The Companies (Accounting Standards) Rules ,2006 if a company satisfied any of the following conditions at the end of the relevant financial year will called small and medium-sized company(SMCs)		
Level II Non-SMCs	A company which is not a small and medium-sized company(SMCs) will be called Non-SMCs.	

### III. ACCOUNTING STANDARDS APPLICABLE TO THE CORPORATE ENTITIES.

Following Accounting Standards are applicable to all Companies .These standards are applicable to all Levels but some relaxation and exemption is given to the Level I SMCs companies

S.No	AS	Title	Effective Date
1	AS 1	Disclosures of Accounting Policies	1 <sup>st</sup> April 1993
2	AS 2	Valuation of Inventories (Revised)	1 <sup>st</sup> April 1999
3	AS 4	Contingencies and events occurring after the balance sheet date (Revised)	1 <sup>st</sup> April 1998
4	AS 5	Net profit or loss for the period, prior period items and changes in accounting policies.	1 <sup>st</sup> April 1996
5	AS 7	Construction Contracts	1 <sup>st</sup> April 2002
6	AS 9	Revenue Recognition	1 <sup>st</sup> April 1993
7	AS 10	Property ,Plant and Equipment (Revised)	1 <sup>st</sup> April 2016
8	AS 11	The effect of change in foreign exchange rates	1 <sup>st</sup> April 2004
9	AS 12	Accounting for Government Grants	1 <sup>st</sup> April 1994
10	AS 13	Accounting for Investments (Revised)	1 <sup>st</sup> April 1995

11	AS14	Accounting for Amalgamation (Revised)	1 <sup>st</sup> April 1995
12	AS 16	Borrowing Costs	1 <sup>st</sup> April 2000
13	AS 18	Related Party Disclosures	1 <sup>st</sup> April 2001
14	AS 22	Accounting for taxes on income	1 <sup>st</sup> April 2001
15	AS 24	Discontinuing Operations	1 <sup>st</sup> April 2004
16	AS 26	Intangible Assets	1 <sup>st</sup> April 2003

### Relaxation and exemption available to the Level I SMCs

a) For Level I

S.No	AS	Title	Effective Date
1	AS 3	Cash flow statements	1 <sup>st</sup> April 2001
2	AS 17	Segment Reporting	1 <sup>st</sup> April 2001

### Accounting Standard not applicable to all SMCs except some SMCs fall in Level I

S.No	AS	Title	Effective Date
1	AS 21	Consolidated Financial Statements	1 <sup>st</sup> April 2001
2	AS 23	Accounting for Investment in Associates in Consolidated Financial Statements	1 <sup>st</sup> April 2002
3	AS 27	Financial Reporting of Interests in Joint Ventures.	1 <sup>st</sup> April 2002

For the Level I SMCs there are also some relaxations regarding certain requirements (Some Paragraphs) of some accounting standards.

S.No	AS	Title	Exempted Paragraphs
1	AS 15	Employee Benefits	11-16,46and 139,50-116,129-131
2	AS 19	Leases	22(c),(e)and (f),25a,b,and e,37a and f,46 b and d
3	AS 20	Earnings Per share	Diluted Earnings per shares
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5	AS 29	Provisions, Contingent Liabilities and Contingent Assets	66 and 67
6	AS 25	Interim Financial Reporting	Interim Financial Results

### Accounting Standards setting process

ICAI is the premier accounting body in India and ICAI play a main role for setting the Accounting standards and for the same purpose ICAI in 1977 constitute Accounting Standards Board (ASB)

Accounting Standards Board (ASB) is comprised of Government department ,regulators ,academicians Industries .

ASB while framing the accounting standards considered the customs, usages and laws .At the same ASB also try to stream line with the International Accounting standards (IASs) and International Financial Reporting Standards (IFRSs)

The process of setting of Accounting Standards is-

1. Identify the study area for AS
2. Constitution of study group
3. Rough draft by ASB and its revision if required
4. Send it to outside group for comments
5. Meeting with outside bodies
6. Prepare Final draft
7. Get approval on final draft
8. Modification of final draft if recommended by ICAI

Council

Accounting Standards for Non Corporate entities are issued by the ICAI and For the Corporate entities are issued by the Central Government of India.

National Advisory Committee on Accounting Standards (NACAS) recommend accounting standards to Ministry of Corporate Affairs MCA and MCA notified these standards to companies .

### Accounting Standards regarding Income Computation

Income Computation and Disclosure standards (ICDS)-Some time we can see the different treatment of Accounting for the items as per the provisions of the Income Tax Act 1961 and different as per the Accounting Standards So, some arrangement is required regarding the computation of Income. For the same purpose Central Government of India notified ICDS.

As per the Sec. 145(2) of Income Tax Act 1961, Central Government is empowered to notify the Accounting Standards to be followed by the all class of Assesses and to the all class of Income who followed the Mercantile system of Accounting.

The Central Government of India notified 10 Income



Computation and Disclosure standards (ICDS) to be followed by the all class of Assesses and to the all class of Income who followed the Mercantile system of Accounting except those Individuals and HUFs whose income is chargeable under the head of Income from Other Source and Profit & Gain from Business or Profession and whose accounts is not required to be audited as per Sec. 44AB.

ICDS I – Accounting Policies  
ICDS II – Valuation of Inventories  
ICDS III- Construction Contracts  
ICDS IV- Revenue Recognition  
ICDS V- Tangible Fixed Assets  
ICDS VI- The effects of changes in foreign exchange rate  
ICDS VII- Government Grants  
ICDS VIII- Securities  
ICDS IX- Borrowing Costs  
ICDS X- Provisions, Contingent Liabilities and Contingent Assets

#### IV. ADVANTAGES OF ACCOUNTING STANDARDS

As we know the Accounting Standards focus on the recognition ,measurement, presentation and disclosure of the transactions and events taken place in the Accounting period which becomes the part of Financial statements and the business enterprise who follow these Accounting Standards can enjoy the lots of benefits and advantages some of these are-

1. Reduce the Accounting Alternatives.
2. Eliminate the Non- Comparability of the Financial statements.
3. Provide Standardized Accounting Policies.
4. Provide Standardized Valuation and disclosure norms.
5. Reduce the scope of creative Accounting.
6. Accounting Standards improves the quality of Financial reporting.
7. Accounting Standards helps in improving comparability ,consistency and transparency.
8. It helps in improving the financial health of the economy.
9. It reduces the cost of capital by lowering the risk in the investment
10. Creative Accounting is the dark area of Accounting Practices by which the Accountant can manipulate Accounting Policies to increase or Decrease the profits of the organization to give the benefit to a particular interested Group.
11. Improve confidence in Financial statements by calling the disclosure of important information is not legally required.

#### V. LIMITATIONS

1. Accounting standards cannot override the laws and regulations applicable to the organisation.
2. Accounting standards not cover the all areas of accounting policies and practices.
3. Accounting standards cannot provide a single set of accounting policies and practices to all entities.
4. Accounting standards give some space to the creative

accounting.

5. Accounting standards allowed more than one accounting policies and practices.

#### VI. CONCLUSION

After working on this research paper we find that the Standardization of Accounting policies plays a very important role for the Business Entities, Investor ,lenders and other interested parties in making the financial statements trust worthy and to build the confidence between the Investors and Regulators. After going through the study it is find out that Accounting Standards Board constituted by the ICAI plays a major role in the setting process of Accounting Standards which coordinate with the SEBI,MCA,NACAS and other regulatory bodies .Till the date ICAI has issued 29 Accounting Standards out of which 27 Accounting Standards are effectively applicable in India. Basically Accounting Standards for the applicability of Accounting Standards for Non- Corporate Entities is decided by the ICAI and the applicability of Accounting Standards for corporate Entities are decided by the Central Government of India after the consultation with NACAS .Although Accounting Standards also have some limitation but without the Accounting Standards the financial statements of the Organisation cannot depicts true and Fair view so, we can say that Accounting Standards plays a very important role in the business world from the point of view of both Entrepreneur and Investors.

#### REFERENCES

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