

- (iii) To guide accounting in such a manner that it can measure the income easily.
- (iv) To reduce uncertainties prevailing in accounting practices.
- (v) Globalisation of business through the operation of multinational companies needs standard accounting practices.

**The objectives of issuing Accounting Standards are :**

- (i) Its aim is to provide the prescribed methods for treating accounting events in the books of account.
- (ii) To set out the procedure and method for disclosing accounting events in an all-accepted, unbiased and fair manner.
- (iii) To reduce the several alternative rules and procedures applied in measurement, valuation reporting and disclosure of financial information.
- (iv) To converge National Accounting Standards and International Accounting Standards to high quality solution.

29. **What are the advantages and limitations of Accounting Standards?**

**Or, Why is Accounting Standard significant?**

[G.U. B.Com., 2008]

**Ans: Advantages of Accounting Standard :**

Accounting Standards provide the accountants, those accounting policies which are most suitable in a given situation. The utility of Accounting Standards may be stated as follows :

- (i) Accounting Standards improve the reliability and credibility of financial statements.
- (ii) It ensures the consistency and comparability of financial statements.
- (iii) It help in resolving conflict of financial interests among various groups.
- (iv) It reduces the chances of manipulations and frauds.
- (v) Accounting Standards are helpful to auditors.

**Limitations of Accounting Standard :**

- (i) It is applicable only to company form of organisation.
- (ii) There may be difference in definition and approach in a particular standard issued by the three authorities that set and issue Accounting Standards.
- (iii) The scope of application of Accounting Standards is limited to Financial Statements.
- (iv) The coverage of Accounting Standard is limited.
- (v) There is limited enforceability of Accounting Standard.

(ii) **Accounting Standards applicable but relaxation from certain disclosure requirements** : AS-19, AS-20 and AS-29.

(iii) **Accounting Standards not applicable** : AS-3, AS-17, AS-18, AS-21, AS-23, AS-24, AS-25 and AS-27 are not applicable because of existing regulations in India.

32. **Write briefly on the composition, objectives and functions of the Accounting Standard Board (ASB).**

Ans. **Accounting Standard Board (ASB)** : Recognizing the need to harmonize the diverse accounting practices prevalent in India and also to integrate them with the international accounting practices, the Accounting Standards Board (ASB) was constituted on 21st April, 1977 by the ICAI. The Accounting Standard Board gives adequate representation to the related and interested group of bodies in the line of business, industry, finance, audit, taxation, etc. Thus, it gives representation to the representatives of Industry and Commerce, Company Law, Central Board of Direct Taxes, Comptroller and Auditor General of India, Bank, Public Enterprises and Practising Auditors. The main function of the ASB is to formulate Accounting Standards so that such standards may be established by the ICAI in India. While formulating the Accounting Standards, the ASB takes into consideration the applicable laws, customs, usages and business environment prevailing in India. Accordingly, while formulating the Accounting Standards (IASs) issued by the International Accounting Standards Committee Foundation and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India.

**The Composition of the Accounting Standards Board (ASB)** : The composition of the ASB is fairly broad-based and ensures participation of all interest groups in the standard-setting process. Apart from the elected members of the Council of the ICAI nominated on the ASB, the following are represented on the ASB :

- (i) Nominee of the Central Government representing the Department of Company Affairs on the Council of the ICAI.
- (ii) Nominee of the Central Government representing the Office of the Comptroller and Auditor General of India on the Council of the ICAI.
- (iii) Nominee of the Central Government representing the Central Board of Direct Taxes on the Council of the ICAI.
- (iv) Representative of the Institute of Cost and Works Accountants of India.



- (v) Representative of the Institute of Company Secretaries of India.
- (vi) Representative of Industry Association (1 from Associated Chambers of Commerce and Industry (ASSOCHAM), 1 from Confederation of Indian Industry (CII) and 1 from Federation of Indian Chambers of Commerce and Industry (FICCI)
- (vii) Representative of Reserve Bank of India.
- (viii) Representative of Securities and Exchange Board of India.
- (ix) Representative of Controller General of Accounts.
- (x) Representative of Central Board of Excise and Customs.
- (xi) Representatives of Academic Institutions (1 from Universities and 1 from Indian Institutes of Management)
- (xii) Representative of Financial Institution.
- (xiii) Eminent professionals co-opted by the ICAI (they may be in practice or in industry, government, education, etc.)
- (xiv) Chairman of the Research Committee and the Chairman of the Expert Advisory Committee of the ICAI, if they are not otherwise members of the Accounting Standards Board.
- (xv) Representative(s) of any other body, as considered appropriate by the ICAI.

#### **Objectives/ Functions of the Accounting Standards Board :**

- (i) **Selection of area/ subject :** To develop the idea on the subject and area in which Accounting Standard is to be issued which is done keeping in view the existing conflicts in the accounting treatment of a particular economic events and its accounting and financial impact.
- (ii) **Establishment of Accounting Standard :** To assist the Council in the establishment of Accounting Standard by observing the official procedure by the Council.
- (iii) **To examine international scenario :** To examine how far the relevant IAS/ IFRS can be adopted while formulating Accounting Standards in Indian context.
- (iv) **Review of Accounting Standard :** Accounting Standard already issued requires revision in the changed situation. To make it more relevant ASB is, therefore, empowered to review the existing standards at regular intervals and to revise the same, if necessary.
- (v) **Issue of Guidance Note :** To issue Guidance Notes and to provide clarifications to the members of the ICAI on issue arising from application of such standards.

- (i) ASB shall determine the broad areas in which Accounting Standards need to be formulated and the priority in regard to the selection thereof.
- (ii) In the preparation of Accounting Standards, ASB will be assisted by Study Groups constituted to consider specific subjects. In the formation of Study Groups, provision will be made for wide participation by the members of the Institute and others.
- (iii) ASB will also hold a dialogue with the representatives of the Government, Public Sector Undertakings, Industry and other Organisations for ascertaining their views.
- (iv) On the basis of the work of the Study Groups and the dialogue with the organisations referred to in (iii) above, an exposure draft of the proposed standard will be prepared and issued for comments by members of the Institute and the public at large.
- (v) (a) A Statement of concepts and fundamental accounting principles relating to the Standard.
- (b) Definitions of the terms used in the Standard.
- (c) The manner in which the Accounting Principles have been applied for formulating the Standard.
- (d) The presentation and disclosure requirements in complying with the Standard.
- (e) Class of enterprises to which the Standard will apply.
- (f) Date from which the Standard will be effective.
- (vi) After taking into consideration the comments received, the draft of the proposed Standard will be finalised by ASB and submitted in consultation with ASB. The Accounting Standard on the relevant subject will then be issued under the authority of the Council.

**38. Discuss the scope of Accounting Standards.**

**Ans. Scope of Accounting Standards**

- (i) Efforts will be made to issue Accounting Standards which are in conformity with