

Preface to the Statements of Accounting Standards

(Revised 2004)

The following is the text of the Preface to the Statements of Accounting Standards (revised 2004), issued by the Council of the Institute of Chartered Accountants of India.

With the issuance of this revised Preface, the Preface to the Statements of Accounting Standards, issued in January, 1979, stands superseded.

1. Formation of the Accounting Standards Board

1.1 The Institute of Chartered Accountants of India (ICAI), recognising the need to harmonise the diverse accounting policies and practices in use in India, constituted the Accounting Standards Board (ASB) on 21st April, 1977.

1.2 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) Representatives of Industry Associations (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 Institutions
 - (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

2. Objectives and Functions of the Accounting Standards Board

2.1 The following are the objectives of the Accounting Standards Board:

- (i) To conceive of and suggest areas in which Accounting Standards need to be developed.
- (ii) To formulate Accounting Standards with a view to assisting the Council of the ICAI in evolving and establishing Accounting Standards in India.
- (iii) To examine how far the relevant International Accounting Standard/International Financial Reporting Standard (see paragraph 2.3 below) can be adapted while formulating the Accounting Standard and to adapt the same.
- (iv) To review, at regular intervals, the Accounting Standards from the point of view of acceptance or changed conditions, and, if necessary, revise the same.

- (v) To provide, from time to time, interpretations and guidance on Accounting Standards.
 - (vi) To carry out such other functions relating to Accounting Standards.
- 2.2 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 will take into consideration the applicable laws, customs, usages and business environment prevailing in India.
- 2.3 The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is expected, inter alia, to actively promote the International Accounting Standards Board's (IASB) pronouncements in the country with a view to facilitate global harmonisation of accounting standards. Accordingly, while formulating the Accounting Standards, the ASB will give due consideration to International Accounting Standards (IASs) issued by the International Accounting Standards Committee (predecessor body to IASB) or International Financial Reporting Standards (IFRSs) issued by the IASB, as the case may be, and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India.
- 2.4 The Accounting Standards are issued under the authority of the Council of the ICAI. The ASB has also been entrusted with the responsibility of propagating the Accounting Standards and of persuading the concerned parties to adopt them in the preparation and presentation of financial statements. The ASB will provide interpretations and guidance on issues arising from Accounting Standards. The ASB will also review the Accounting Standards at periodical intervals and, if necessary, revise the same.

3. General Purpose Financial Statements

- 3.1 For discharging its functions, the ASB will keep in view the purposes and limitations of financial statements and the attest function of the auditors. The ASB will enumerate and describe the basic concept to which accounting principles should be oriented and state the accounting principles to which the practices and procedures should conform.

- 3.2 The ASB will clarify the terms commonly used in financial statements and suggest improvements in the terminology wherever necessary. The ASB will examine the various current alternative practices in vogue and endeavour to eliminate or reduce alternatives within the bounds of rationality.
- 3.3 Accounting Standards are designed to apply to the general purpose financial statements and other financial reporting, which are subject to the attest function of the members of the ICAI. Accounting Standards apply in respect of any enterprise (whether organised in corporate, co-operative¹ or other forms) engaged in commercial, industrial or business activities, irrespective of whether it is profit oriented or it is established for charitable or religious purposes. Accounting Standards will not, however, apply to enterprises only carrying on the activities which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise is considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those which are not commercial, industrial or business in nature².
- 3.4 The term 'General Purpose Financial Statements' includes balance sheet, statement of profit and loss, a cash flow statement (wherever applicable) and statements and explanatory notes which form part thereof, issued for the use of various stakeholders, Governments and their agencies and the public. References to financial statements in this Preface and in the standards issued from time to time will be construed to refer to General Purpose Financial Statements.

¹ With the issuance of this revised Preface, General Clarification (GC) - 12/2002, Applicability of Accounting Standards to Co-operative Societies, issued by the Accounting Standards Board in October 2002, stands superseded.

² With the issuance of this revised Preface, Announcement on 'Applicability of Accounting Standards to Charitable and/or Religious Organisations', approved by the Council (published in 'The Chartered Accountant', September 1995 (page 79)), stands superseded.

- 3.5 Responsibility for the preparation of financial statements and for adequate disclosure is that of the management of the enterprise. The auditor's responsibility is to form his opinion and report on such financial statements.

4. Scope of Accounting Standards

- 4.1 Efforts will be made to issue Accounting Standards which are in conformity with the provisions of the applicable laws, customs, usages and business environment in India. However, if a particular Accounting Standard is found to be not in conformity with law, the provisions of the said law will prevail and the financial statements should be prepared in conformity with such law.
- 4.2 The Accounting Standards by their very nature cannot and do not override the local regulations which govern the preparation and presentation of financial statements in the country. However, the ICAI will determine the extent of disclosure to be made in financial statements and the auditor's report thereon. Such disclosure may be by way of appropriate notes explaining the treatment of particular items. Such explanatory notes will be only in the nature of clarification and therefore need not be treated as adverse comments on the related financial statements.
- 4.3 The Accounting Standards are intended to apply only to items which are material. Any limitations with regard to the applicability of a specific Accounting Standard will be made clear by the ICAI from time to time. The date from which a particular Standard will come into effect, as well as the class of enterprises to which it will apply, will also be specified by the ICAI. However, no standard will have retroactive application, unless otherwise stated.
- 4.4 The Institute will use its best endeavours to persuade the Government, appropriate authorities, industrial and business community to adopt the Accounting Standards in order to achieve uniformity in preparation and presentation of financial statements.

- 4.5 In formulation of Accounting Standards, the emphasis would be on laying down accounting principles and not detailed rules for application and implementation thereof.
- 4.6 The Standards formulated by the ASB include paragraphs in bold italic type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles. An individual standard should be read in the context of the objective stated in that standard and this Preface.
- 4.7 The ASB may consider any issue requiring interpretation on any Accounting Standard. Interpretations will be issued under the authority of the Council. The authority of Interpretation is the same as that of Accounting Standard to which it relates.

5. Procedure for Issuing an Accounting Standard

Broadly, the following procedure is adopted for formulating Accounting Standards:

- 5.1 The ASB determines the broad areas in which Accounting Standards need to be formulated and the priority in regard to the selection thereof.
- 5.2 In the preparation of Accounting Standards, the 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.
- 5.3 The draft of the proposed standard will normally include the following:
- (a) Objective of the Standard,
 - (b) Scope of the Standard,
 - (c) Definitions of the terms used in the Standard,
 - (d) Recognition and measurement principles, wherever applicable,
 - (e) Presentation and disclosure requirements.
- 5.4 The ASB will consider the preliminary draft prepared by the Study Group and if any revision of the draft is required on the basis of deliberations, the ASB will make the same or refer the same to the Study Group.

- 5.5 The ASB will circulate the draft of the Accounting Standard to the Council members of the ICAI and the following specified bodies for their comments:
- (i) Department of Company Affairs (DCA)
 - (ii) Comptroller and Auditor General of India (C&AG)
 - (iii) Central Board of Direct Taxes (CBDT)
 - (iv) The Institute of Cost and Works Accountants of India (ICWAI)
 - (v) The Institute of Company Secretaries of India (ICSI)
 - (vi) Associated Chambers of Commerce and Industry (ASSOCHAM), Confederation of Indian Industry (CII) and Federation of Indian Chambers of Commerce and Industry (FICCI)
 - (vii) Reserve Bank of India (RBI)
 - (viii) Securities and Exchange Board of India (SEBI)
 - (ix) Standing Conference of Public Enterprises (SCOPE)
 - (x) Indian Banks' Association (IBA)
 - (xi) Any other body considered relevant by the ASB keeping in view the nature of the Accounting Standard
- 5.6 The ASB will hold a meeting with the representatives of specified bodies to ascertain their views on the draft of the proposed Accounting Standard. On the basis of comments received and discussion with the representatives of specified bodies, the ASB will finalise the Exposure Draft of the proposed Accounting Standard.
- 5.7 The Exposure Draft of the proposed Standard will be issued for comments by the members of the Institute and the public. The Exposure Draft will specifically be sent to specified bodies (as listed above), stock exchanges, and other interest groups, as appropriate.
- 5.8 After taking into consideration the comments received, the draft of the proposed Standard will be finalised by the ASB and submitted to the Council of the ICAI.
- 5.9 The Council of the ICAI will consider the final draft of the proposed Standard, and if found necessary, modify the same in consultation with the ASB. The Accounting Standard on the relevant subject will then be issued by the ICAI.
- 5.10 For a substantive revision of an Accounting Standard, the procedure followed for formulation of a new Accounting Standard, as detailed above, will be followed.
- 5.11 Subsequent to issuance of an Accounting Standard, some aspect(s) may require revision which are not substantive in nature. For this purpose, the ICAI may make limited revision to an Accounting Standard. The procedure followed for the

limited revision will substantially be the same as that to be followed for formulation of an Accounting Standard, ensuring that sufficient opportunity is given to various interest groups and general public to react to the proposal for limited revision.

6. Compliance with the Accounting Standards

- 6.1 The Accounting Standards will be mandatory from the respective date(s) mentioned in the Accounting Standard(s). The mandatory status of an Accounting Standard implies that while discharging their attest functions, it will be the duty of the members of the Institute to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviation.
- 6.2 Ensuring compliance with the Accounting Standards while preparing the financial statements is the responsibility of the management of the enterprise. Statutes governing certain enterprises require of the enterprises that the financial statements should be prepared in compliance with the Accounting Standards, e.g., the Companies Act, 1956 (section 211), and the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000.
- 6.3 Financial Statements cannot be described as complying with the Accounting Standards unless they comply with all the requirements of each applicable Standard.