INDIAN ACCOUNTING STANDARDS **Vs.** IFRS/IAS **Vs.** US GAAP

Indian Accounting Standards:

Back ground:

Look at the following two companies and the accounting treatment followed by them.

GOLMAL Ltd.	**LOOT Ltd.**
Adopted Straight line method of depreciation	Adopted WDV method of depreciation
Followed Perpetual inventory system for accounting Inventory	Followed Periodic inventory System for accounting Inventory
To increase profit for a particular year, it shifted form SLM to WDV	It has changed the depreciation method form WDV to straight line, just to avoid taxes.
In order to reduce tax, Advertising expenditure being deferred revenue in nature charged to P&L A/C in the year in which exp. is incurred.	Major Repairs being revenue in nature are treated as capital in order to show higher profits.

The users Known as Stake holders (D,E,F,G,H)
D - Debenture holders
E - Employees
F - Financial Institutions/Banks
G - Government
H - Holders of Capital (Equity & Preference)
not knowing the above facts, started comparing the two companies.

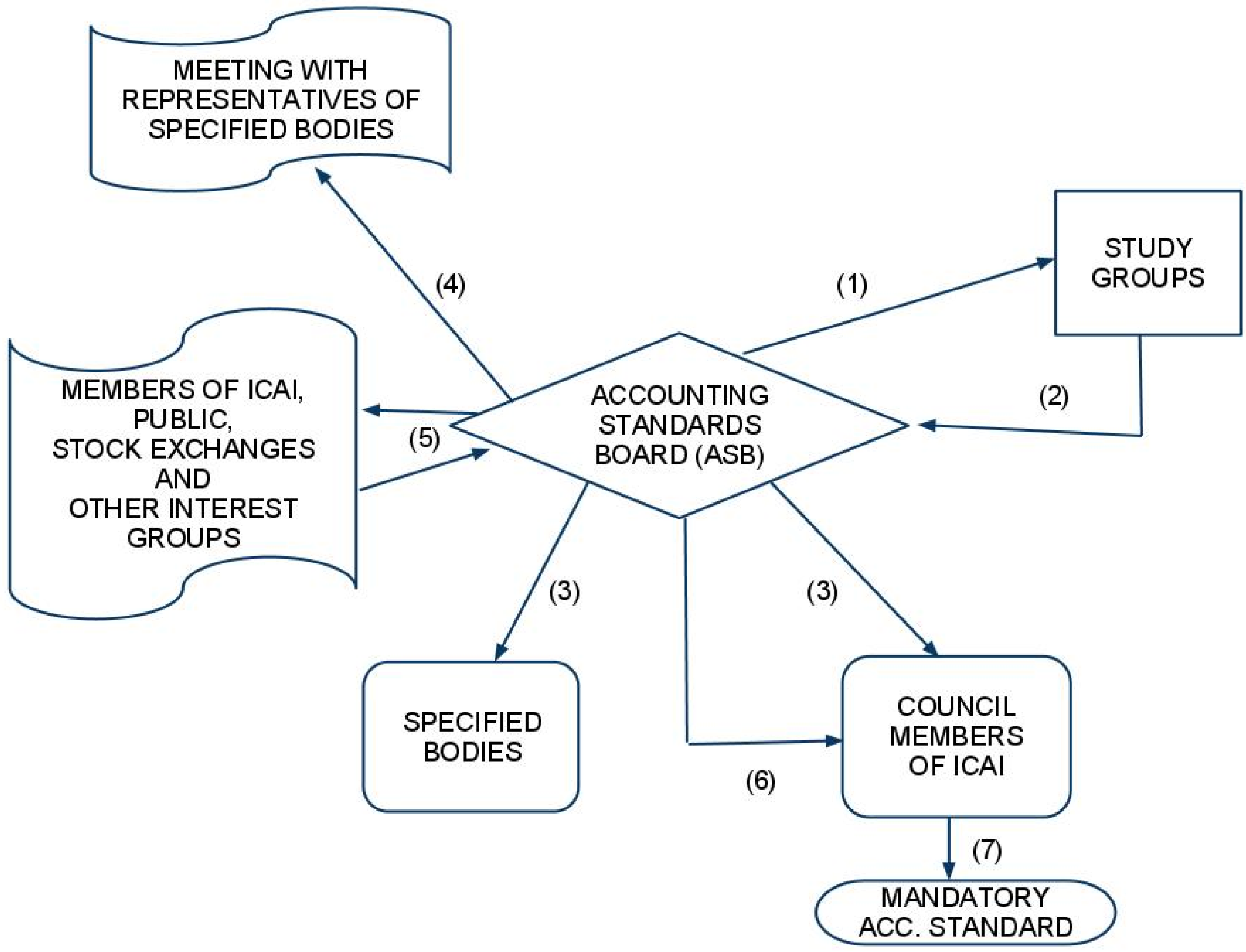
Not only the above two but almost all companies will adopt different accounting treatments which shall be beneficial for them.

The users of financial statements should not get manipulated by the practices of corporates.There should be a check for the corporates and it can be done by having a common accounting treatment or if they adopt different accounting treatments, they should disclose these matters.

The need has aroused to HARMONISE THE DIVERSE ACCOUNTING POLICIES AND PRACTICES and it has been done by introducing ACCOUNTING STANDARDS by ASB (ACCOUNTING STANDARDS BOARD) Constituted by ICAI.

They have established a STANDARD (a Common accounting treatment), which has to be followed by every company or enterprise who prepares books of accounts. Initially these standards will be recommendatary and later on will be made mandatory by ICAI.

Procedure to issue an Accounting Standard:



(1) The ASB determines the broad areas where standards are needed to be formulated and refer them to the study group. The study group is constituted by ASB with the members of ICAI and others to assist ASB.

(2) The study group makes a draft of the proposed standard known as "Preliminary Draft" and sends it to ASB for consideration.

(3) ASB circulates the preliminary draft to council members of ICAI and to specified bodies for their comments.

(4) ASB holds a meeting with the representatives of specified bodies and based on the discussions, ASB finalises "Exposure Draft" of the proposed standard.

(5) The Exposure Draft is circulated for comments among Members of ICAI, Representatives of public, Stock exchanges and other interest groups. Considering this ASB finalises the draft of the proposed standard.

(6) ASB submits the finalised draft to the council and if necessary modifies the same.

(7) The Accounting standard is then issued on the relevant subject.

International Financial Reporting Standards(IFRS)/International Accounting Standards (IAS):

International Accounting Standards Board (IASB) is an independent Standard-setting board, overseen by geographically and professionally diverse body of trustees, publicly accountable to the monitoring board of public capital market authorities.

It is supported by an external IFRS advisory council and an IFRS interpretation committee to offer guidance where divergence in practice occurs.

The Objective of IASB is " to Develop a single set of high quality, Understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated Principles."

The standard setting process is as follows:

Stage 1 - Setting the agenda: The IASB, by developing high quality accounting standards, seeks to address a demand for better-quality information that is of value to all users of financial statements.

The IASB evaluates the merits of adding a potential item to its agenda mainly by reference to the needs of investors.

The IASB considers:

- the relevance to users of the information and the reliability of information that could be provided
- whether existing guidance available
- the possibility of increasing convergence
- the quality of the standard to be developed.
- resource constraints.

To help the IASB in considering its future agenda, its staff are asked to identify, review and raise issues that might warrant the IASB's attention.

New issues may also arise from a change in the IASB's conceptual framework. In addition, the IASB raises and discusses potential agenda items in the light of comments from other standard-setters and other interested parties, the IFRS Advisory Council and the IFRS Interpretations Committee, and staff research and other recommendations.

Stage 2 - Planning the Project: When adding an item to its active agenda, the IASB also decides whether to:

- conduct the project alone, or
- jointly with another standard-setter.

Similar due process is followed under both approaches.

After considering the nature of the issues and the level of interest among constituents, the IASB may establish a working group at this stage.

Stage 3 - Developing and publishing the discussion paper: Although a discussion paper is not mandatory, the IASB normally publishes it as its first publication on any major new topic to explain the issue and solicit early comment from constituents.

If the IASB decides to omit this step, it will state the reason for doing so.

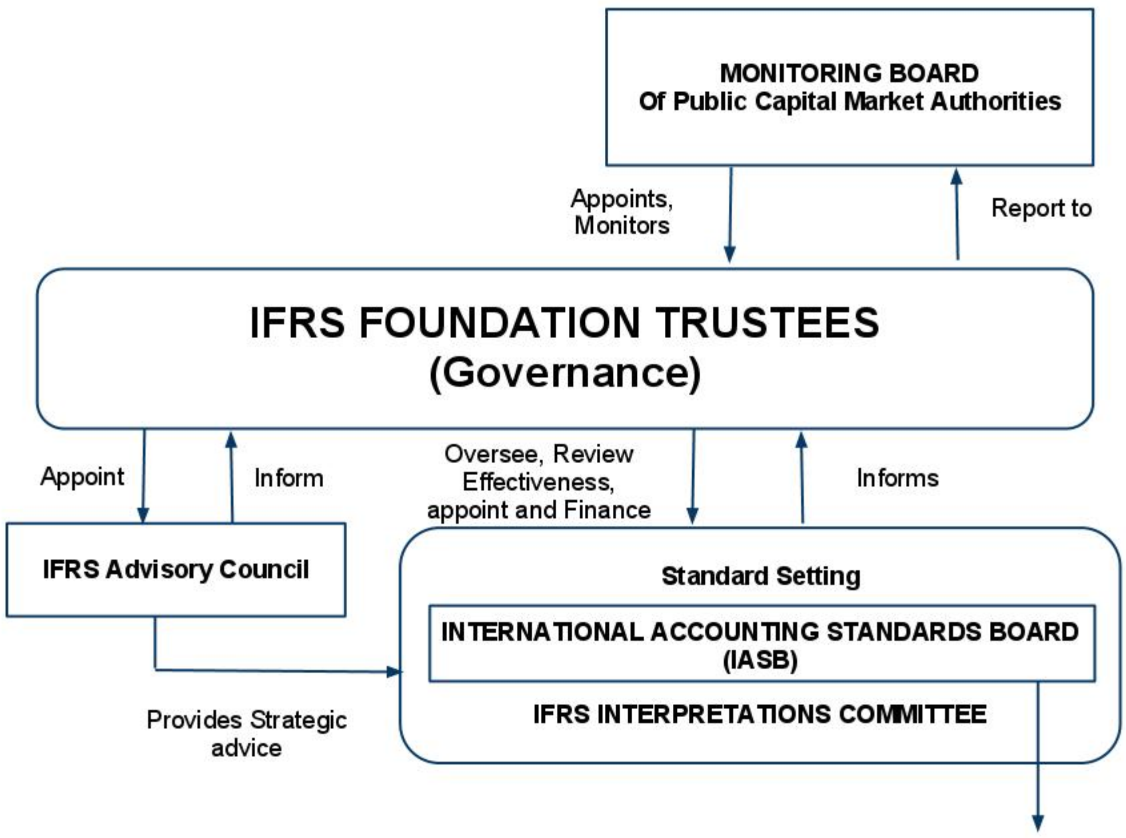
Typically, a discussion paper includes:

- a comprehensive overview of the issue;
- possible approaches in addressing the issue;
- the preliminary views of its authors or the IASB; and
- an invitation to comment.

Stage 4 - Developing and publishing an Exposure Draft: Irrespective of whether the IASB has published a discussion paper, an exposure draft is the IASB's main vehicle for consulting the public.

Unlike a discussion paper, an exposure draft sets out a specific proposal in the form of a proposed standard (or amendment to an existing standard).

Stage 5 - Developing and publishing the Standard: The development of an IFRS is carried out during IASB meetings, conducted in public. After resolving issues arising from the exposure draft, it considers whether it should expose any revised proposal for public comments. when IASB is satisfied that it has reached a conclusion on the issues from the exposure draft, it instructs the staff to draft the IFRS.



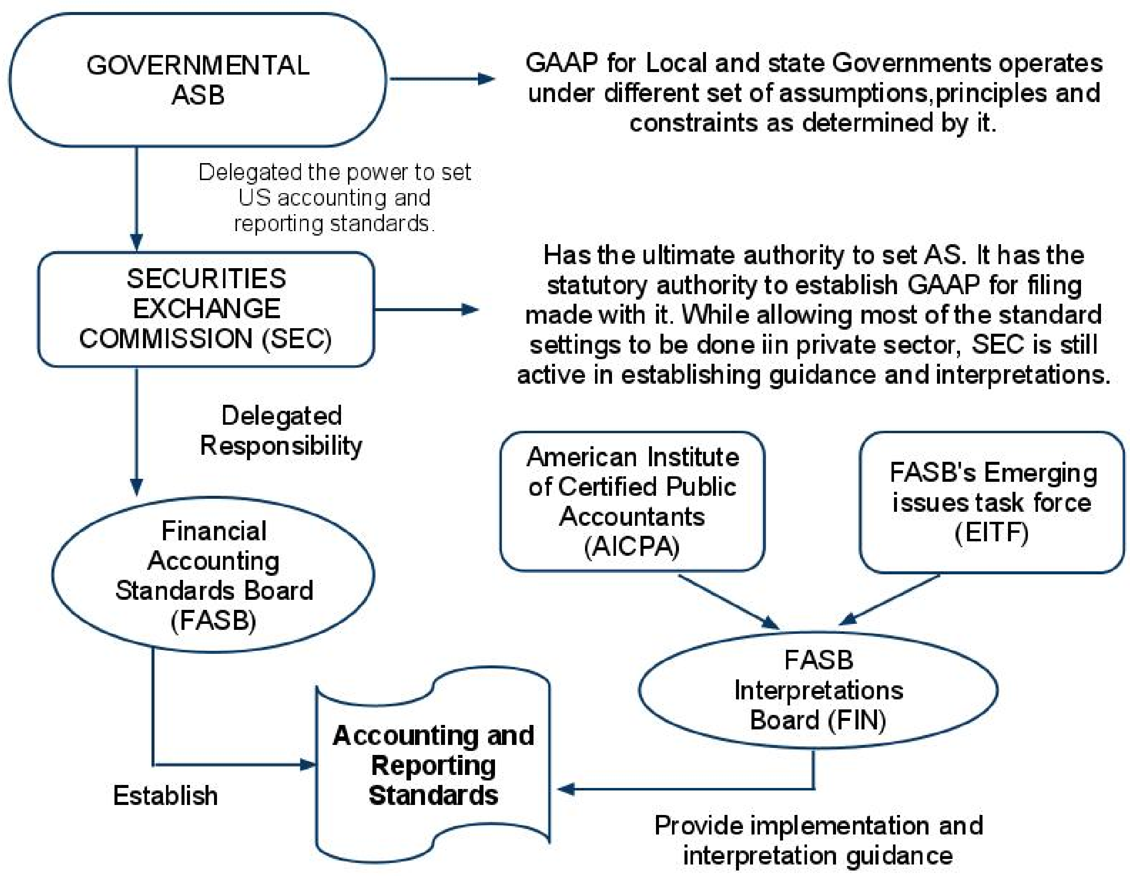
Standard Setting Process:

Stage 1: Setting the agenda
Stage 2: Project Planning
Stage 3: Development and publication of Discussion Paper
Stage 4: Development and publication of Exposure Draft
Stage 5: Development and Publication of an IFRS
Stage 6: Procedure after an IFRS is issued

U.S. Generally Accepted Accounting Principles (US GAAP):

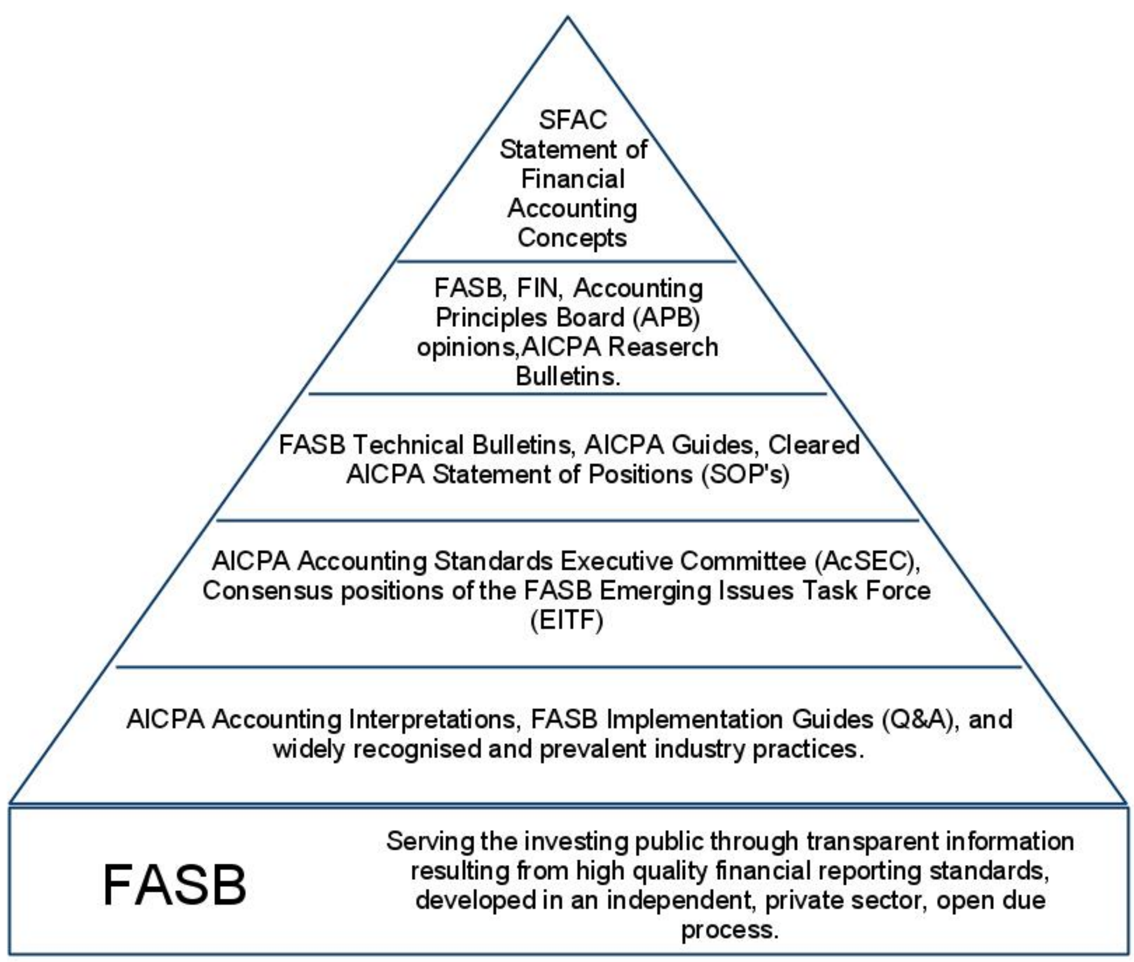
In the U.S., generally accepted accounting principles, commonly abbreviated as US GAAP or simply GAAP, are accounting rules used to prepare, present, and report financial statements for a wide variety of entities, including publicly-traded and privately-held companies, non-profit organizations, and governments.

The Standard setting Process is as follows:



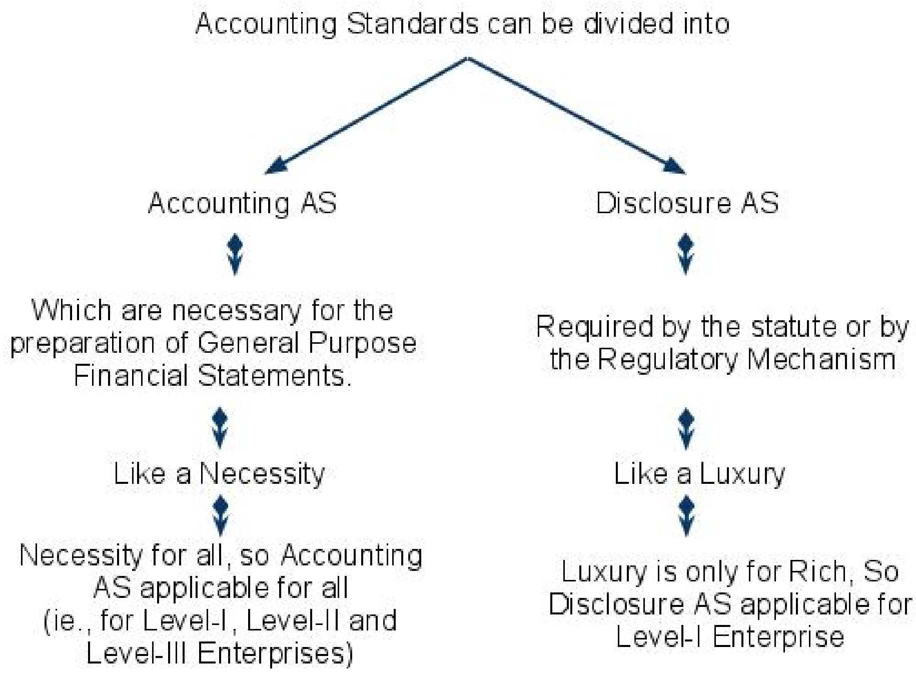
In order to organize and make clear what is meant by US GAAP, a GAAP hierarchy has been established which contains four categories of accounting principles. The sources in the higher category carry more weight and must be followed when conflict arise.

GAAP Hierarchy:



Applicability of Indian Accounting Standards:

Food, Clothing and shelter are necessities for an individual, where as car is a luxury.



General Purpose Financial Statements are

- Profit & Loss A/C
- Balance sheet
- Cash flow statement (Level-I) and
- Notes to Accounts.

Classification of Enterprises:

Level - I	Level - II	Level - III
• Listed Companies • Companies in the process of listing • Bank/FI, including Cooperative banks • Enterprise doing insurance business • Other enterprise whose turnover exceeds 50 crores for preceeding accounting period • Other enterprises having public deposits >10 crores	• Enterprise whose turnover > 40 lakhs but $\leq$50 crores for preceeding accounting period. • Enterprises having public deposits > 1 crore but $\leq$ 10 crores at any time during the accounting period.	• Other than Level - I and Level - II enterprises.

at any time during the accounting period.		

Gist of Indian Accounting Standards and their applicability for various enterprises is as follows:

AS	Description	Nature	Applicability
1	Disclosure of Accounting Policies	Accounting AS	All
2	Valuation Of Inventories	Accounting AS	All
3	Cash flow statement	Disclosure AS	Level - I
4	Contingencies and events occurring after balance sheet	Accounting AS	All
5	Net profit or loss for the period, Prior period items and changes in Accounting policies	Accounting AS	All
6	Depreciation Accounting	Accounting AS	All
7	Construction Contracts	Accounting AS	All
9	Revenue Recognition	Accounting AS	All
10	Accounting for Fixed Assets	Accounting AS	All
11	Effects of changes in Foreign Exchange Rates	Accounting AS	All
12	Accounting for Government Grants	Accounting AS	All
13	Accounting For Investments	Accounting AS	All
14	Accounting For Amalgamation	Accounting AS	All
15	Employee Benefits	Accounting AS	All
16	Borrowing Costs	Accounting AS	All
17	Segment Reporting	Disclosure AS	Level - I
18	Related party Disclosures	Disclosure AS	Level - I
19	Leases	Accounting AS	All
20	Earnings per share	Disclosure AS	All
21	Consolidated Financial Statements	Disclosure AS	Level - I
22	Accounting for taxes on income	Accounting AS	All
23	Accounting for investments in Associates in consolidated financial statements	Disclosure AS	Level - I
24	Discountinuing Operations	Accounting AS	All
25	Interim Financial Reporting	Disclosure AS	Level - I

26	Intangible assets	Accounting AS	All
27	Financial reporting of interests in Joint venture	Disclosure AS	Level - I
28	Impairement of Assets	Accounting AS	All
29	Provisions, Contingent liabilities and contingent Assets.	Accounting AS	All