



CA. (Dr.) Anand J Banka &
CA. Kali Charan Sharma

Compliance: A Collective Responsibility

Accounting Standards for Resurgent New India



Compliance: A Collective Responsibility

Accounting Standards for Resurgent New India

Authors:

CA. (Dr.) Anand J Banka, CA. Kali Charan Sharma

Recent History:

The ICAI, in its endeavour to enable the Nation with high quality accounting standards comparable to the best in the world, decided in the year 2006 to converge with International Financial Reporting Standards (IFRS) issued by the IASB, which were being recognized as Global Financial Reporting Standards. This accounting reforms initiative of ICAI was endorsed by the Government of India with international commitment made by the then Hon'ble Prime Minister in 2009 at the G20 Summit.

In the year 2011, the core committee of MCA had requested ICAI to examine whether there should be one set or two sets of Accounting Standards and whether one set of Accounting Standards can be applied for all companies including one person companies and small companies.

The ICAI, after an in-depth examination and study, recommended that there should be two sets of Accounting Standards - one set comprising Ind AS for large, public interest companies and the other set containing simplified measurement principles with fewer disclosure for small companies. It was also mentioned that a second set of standards does not mean that the recognition and measurement principles would be significantly different from Ind AS in cases.

Against this backdrop, based on the broader theme - **'Building Trust Enabling Sustainability'** of the **'21st World Congress of Accountants'** to be held in November 2022, Taxsutra Greentick brings to you an incisive article-series titled **'Compliance: A Collective Responsibility'** which emphasizes upon India's redefined regulatory framework, viz. how different oversight bodies perform their regulatory roles in India w.r.t accounting, reporting and auditing; major non-compliances pin-pointed by them; expectations of investors/stakeholders and the need for quality reporting.



Roadmap:

In 2020, the ICAI released an approach paper titled “Accounting standards for resurgent new India of 2020’s” regarding revision of existing accounting standards. The ICAI mentioned the following reasons to introduce new ASs in its approach paper:

- During the deliberations on the Ind AS Roadmap at MCA Core Group in 2010 and 2013-14 and subsequent discussions on draft Ind ASs, some members were of the view that there should be one set of standards applicable to all companies namely Ind AS. Some Regulators expressed the view that recognition and measurement principles should be by and large similar for all companies and some felt the need for simpler accounting standards for smaller companies. Therefore, ICAI was asked to study whether 'one set of Accounting Standards' can be applied to all companies including one person companies and small companies as defined in the Companies Act, 2013. The ICAI was requested to study the option of "second set of Accounting Standards' as to how it would be consistent with the first set of Accounting Standards so that at least the recognition and to a large extent the measurement principles are the same. The ICAI in its report on Impact Analysis of Indian Accounting Standards and One set of Standards vs. Two sets of Standards dated October 21, 2013 recommended 'two sets of Accountings Standards' and the second set of Accounting Standards may comprise the revised existing Accounting Standards for small and one person companies.

- Other factors that necessitated the need for the revision of the existing ASs:
 - ✓ Structure, Layout and Text of ASs lack consistency and uniformity
 - ✓ Concepts and Approaches are outdated
 - ✓ Language has potential for serious misapplication and misunderstanding about the ASs
 - ✓ Lack of comprehensive robust principles and inadequate guidance in certain areas



The approved approach paper of NACAS can be summarised in following 4 categories –

Category of AS	Methodology of ASs upgrade approach
Category 1	Ind AS corresponding to which AS need not be issued.
Category 2	Existing AS to be revised by including certain aspects from the corresponding Ind AS
Category 3	Ind AS can be used as basis for revision of the corresponding existing Accounting Standards with changes as suggested in the Approach Paper finalized
Category 4	Standards for which hybrid approach to be followed (consolidation and financial instruments related Accounting Standards)

While NFRA, on 28 September 2021, returned the approach paper submitted by ICAI for further analysis of various other factors, ICAI is in discussions with NFRA to conclude on this matter. Until 2021, the ICAI had submitted 18 Revised Accounting Standards to the NFRA. Further, many more revised accounting standards have been exposed to public for comments.

Benefits of Second set of Accounting Standard:

- 1) Simplified measurement principles with fewer disclosures for smaller companies.
- 2) **Standardisation of alternate accounting treatments** - The Accounting Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.
- 3) **Requirements for additional disclosures** - Standards may call for disclosure beyond that required by law.
- 4) **Comparability of financial statements** – The standardisation of accounting procedure improves comparability of financial statements.
- 5) **Reduction the scope of creative accounting** – The creative accounting refers to twisting of accounting policies to produce financial statements favourable to a particular interested group.
- 6) Improving **credibility** of Accounting Data and **quality** of the financial reporting.
- 7) The appropriate balance between fair presentation and prudence should be maintained.



Approach for Disclosure requirements:

The disclosures requirements in various accounting standards should be reduced keeping in view the level of entities based on the followings:

- ❖ In respect of formulation of the standards for which existing Accounting Standards is currently available, the disclosure requirements should be broadly as per the existing Accounting Standards including exemptions/relaxations given to SMEs.
- ❖ The disclosure requirements which are primarily meant for investors may not be given since such disclosures would not be relevant for non-public interest entities.
- ❖ The disclosures requirements may also not exceed those given in IFRS for SMEs.

Preparedness of Proposed Standard:

Revised Accounting Standards are applicable to entities to which Ind ASs are not applicable. Below table summarizes the categories of revised accounting standards as mentioned in the Approach Paper of the ICAI:

Categories	Basis of the Revised Ass	No of Revised ASs	Rational
Category 1	Ind AS corresponding to which AS need not to be issued (Ind AS 29, Ind AS 104, Ind AS 106, Ind AS 114, Ind AS 27 & Ind AS 112)	6	As relevance of these 6 AS in category 1 might not be there for MSMCs and SMEs.
Category 2	Existing AS which can be revised by including certain aspects from the corresponding Ind AS (AS 11, AS 18, AS 16, AS 21, AS 20, AS 108, AS 24, AS 33, AS 12, AS 34, AS 103, AS 110, AS 28, AS 111)	14	Existing AS to be revised by including certain aspects from the corresponding Ind AS: the corresponding international standards on which existing AS were based have been revised since the formulation of ASs in the past and, accordingly, certain existing ASs need revision taking into consideration certain aspects from corresponding Ind AS.



Category 3	Ind AS which can be used as basis for revision of the corresponding existing Accounting Standards with changes (AS 1, AS 2, AS 7, AS 8, AS 10, AS 17, AS 19, AS 23, AS 36, AS 37, AS 38, AS 40, AS 41, AS 105, AS 113, AS 102)	16	To use the Ind ASs as base for formulating Revised ASs is twofold as follows: <ul style="list-style-type: none"> • Structure and Scope/Contents of the some of the ASs are materially different from Ind ASs, eg. AS 1, AS 4, AS 5 etc. • Some of the recently issued ASs, e.g., existing AS 26, AS 28, AS 29 are materially same as Ind ASs except the very recent revisions to IFRS Standards have not been captured. Therefore, better to consider Ind AS a basis for revising ASs.
Category 4	Standard for which hybrid approach to be followed (AS 109)	1	As IFRS for SME's to be considered for formulation of upgraded AS 109, Financial Instruments. Also, it covers 3 sections of which 2 sections are using basis of Ind As while section on liability is based on AS 37.
First time adoption	Ind AS 101 equivalents to be considered	1	A separate standard like Ind AS 101 may be adopted for transition purpose.
	Total Number of Revised ASs	38	
	Three Ind AS merged into one standard (Ind AS 32, Ind AS 107, Ind AS 109 merged into AS 109)	2	
	Ind AS divided into two standards (Ind AS 115 splits into AS 11 and AS 18)	(1)	
	Total Number of Ind ASs	39	



Are we ready?

There is an urgent need to revised the existing accounting standards. Some of the concepts and approaches mentioned in the existing accounting standards are outdated and do not provide guidance regarding many of the transactions relevant in the current economic conditions. Also, updating the recognition and measurement principles in line with the Ind ASs would make financial reporting more logical for all stakeholders including the students of financial reporting. However, are we ready?

The Financial Reporting Review Board (FRRB) of the ICAI publishes a publication titled ‘Study on Compliance of financial reporting requirements’ containing instances of non-compliances with the reporting requirements that have been noticed by the Board during the course of review of the general purpose financial statements of enterprises. The Board also publishes a similar publication on Ind AS. One can clearly observe significant proportion of non-compliances from those publications.

There is a need for upskilling the reporting team of enterprises and also the team of auditing professionals. Until these teams are provided proper training and guidance on the revised Standards, instances of non-compliances would only shoot up.