

Welcome students. This is financial reporting paper. We are doing Unit 2 accounting pronouncements and this is module 12 accounting standards: meaning and significance. The outline: accounting standards, meaning, significance of accounting standards. At the end of this module, you'll be able to understand the concept and significance of accounting standards in preparation of companies financial statements.

Now what are accounting standards? You know that every organization has to prepare financial statements and they are answerable to the stakeholders for their financial performances. Hence these financial statements have to be prepared in such a manner that it is easily understood by all the stakeholders. It enables them to compare the financial performance of the company, not only during the previous years of the company accounts but also with the other companies accounts. Hence there are certain rules, regulations that need to be followed while preparing the financial statements. So accounting standards means those rules or guidelines that every accountant or the one who prepares accounts or the financial statements have to consider while preparing the financial statements. So as the meaning goes, accounting standards are the written statements consisting of rules and guidelines issued by the accounting institutions for the preparation of uniform and consistent financial statements and also for other disclosures affecting the different users of accounting information, that means Accounting Standards acts like a guideline to the accountants. What are these guidelines? These guidelines are sort of rules that briefs how an accounting treatment is to be shown in the financial statements. Now, who issues these guidelines? These guidelines are issued by the accounting agencies in India. We have the Accounting Standard Board of ICAI (Institute of Chartered Accountants of India) that amends the accounting standards as well as formulates new standards.

Now what is the reason behind having these accounting standards?

It helps or enables in preparation of financial statements in a uniform manner and the consistency then has to be maintained in future years. Further, it also demands additional information or disclosures that affect the users in a big way.

Nature of accounting standards.

Well, as we have already mentioned earlier, accounting standards are guidelines that provide a framework to all the ones who prepare the financial statements. So once all the organization prepares the statements in a uniform manner, it brings about a uniformity, transparency, consistency, reliability and comparability in the financial statements and this enables the decision makers in a big way.

Well, accounting standards are not static in nature. They change with the changes in the business environment. ICAI issues standards or amends standards to suit the business environment; it is of course mandatory for all the business entities.

Now, what do the accounting standards deal with?

Accounting standards deal with the recognition of financial transactions or events, measurement of financial events and transactions, presentation of financial statements such that they give a meaningful understanding to the users of information and additional information by way of disclosures.

The issuing authority at the global level is IASB(International Accounting Standards Board) and in India, as already mentioned earlier, it is the Accounting Standards Board (ASB) of ICAI (Institute of Chartered Accountants of India). So when any amendments or changes are adopted at the global level, ICAI monitors those changes and adopts or amends the accounting standards accordingly.

What is the significance of accounting standards?

Well,when every organization prepares the account or financial statements in a similar manner, it brings about a uniformity in the presentation of financial statements. So when you know, a particular aspect has to be recorded in a particular manner as given in the accounting standards there are no chances of things being manipulated in the financial statements, thus adopting accounting standards or following accounting standards improves the reliability of the financial statements.

Comparability, so when every organization or every business entity follows uniformity in presentation of financial statements, it enables comparability of financial performance with the other organisations, and this is what is the main objective of financial reporting.

Assists auditors: What is the task of an auditor? An auditor examines the financial data that is presented in the financial statements of an entity. Now the auditors task here is to see whether the organisations have complied by the Rules, Regulations as given in the accounting standards. If that has been done then he ensures that the financial statements give a true and fair picture of the financial statements of the company. So the investors then are very keen in investing into those business organisations which get a clean chit from the auditors. When things are followed in a particular manner, there are less chances of manipulation of data. So even if the management on any other parties want to manipulate the data that is next to impossible, so adopting accounting standards prevents frauds and manipulations in the accounting data or the financial data.

Accounting standards in India

In India, we have 32 accounting standards, AS 1 to AS 32. Of these accounting standard 6 depreciation accounting has been withdrawn. Accounting standard 8-accounting for research and development has been withdrawn and it has been included in accounting standard 26.

Lately, ICAI has amended accounting Standard 2, 4, 10, 13, 14, 21 and 29. So in this unit we have learnt accounting standards and the significance of accounting standards.

Kindly remember, students' accounting standards are not static, they change and these changes are incorporated by the Institute of Chartered Accountant through their accounting standard portal. For additional information, do log into the ICAI website.

And these are some of my references, thank you.