

GUIDANCE NOTES

Hello students, welcome to this module#19 on guidance notes. This is part of Unit 2 Accounting Pronouncements.

In this module you will be studying the meaning of guidance notes, the types of guidance notes, the difference between accounting standards and guidance notes, and the formulation of guidance notes and the standardization of guidance notes.

After studying this module you will be able to

- apply guidance notes to certain situations and understand the difference between guidance notes and the accounting standards.

MEANING OF GUIDANCE NOTES

The Institute of Chartered Accountants of India provide guidance to the members on matters which may arise during their professional duties and which are difficult, and require a resolution.

These guidance notes are issued by the Council of the ICAI, that is, the Institute of Chartered Accountants of India to reinforce the general principles laid down in the accounting standards and to bring about uniformity in areas for which standards do not exist, of which are being currently formulated.

So, for example, imagine if there is a fork in the road. You do not know which road to take, The signpost will tell you. It will guide you on the direction to take. Guidance notes are just like that. They will prescribe the methods of treatment and how to go forward, but ultimately it is at the discretion of the professional of how to apply these guidance notes.

TYPES OF GUIDANCE NOTES

There are two types of guidance notes issued by the ICAI.

1. The first type of guidance notes are guidance notes on accounting and
2. The second type is guidance notes on auditing.

GUIDANCE NOTES ON ACCOUNTING

Guidance notes on accounting are followed during the time of preparation of financial statements.

GUIDANCE NOTES ON AUDITING

The guidance notes on auditing are followed by auditors in discharging their professional obligations or in conducting an audit.

SCOPE OF GUIDANCE NOTES

Guidance notes are purely recommendatory in nature. They will show you or they will tell you whether or disclosures required as per the recommendations of the guidance note. Ultimately it is the professional who is preparing the financial statements.

Who will actually decide whether or not to follow a certain guidance note?

In a situation where there are certain matters that are covered both by an accounting standard as well as a guidance note issued by the Institute of Chartered Accountants of India, the accounting standard will supersede the guidance note, unless otherwise specified in the accounting standard. So the accounting standard takes more preference over the guidance note.

DIFFERENCE BETWEEN ACCOUNTING STANDARDS AND GUIDANCE NOTES

1. Accounting standards are mandatory. If it is applicable to a particular organization, it must be followed. Guidance notes are recommendatory in nature. The professional has an option or will decide how to use a particular guidance note.
2. Accounting standards deal with accounting principles, valuations and techniques to apply these principles and valuations to the preparation of financial statements in order to bring about a true and fair view of the company. On the other hand, guidance notes provide guidance on certain specific matters.
3. If a company does not follow accounting standards, especially when they are mandatory in nature in the preparation of financial statements, then an auditor may qualify his report. But if guidance notes are not followed, then the auditor will not qualify the report. So if there is any deviation from the accounting standard, this must be mentioned in the audit report. Suppose if guidance notes are not followed then there is no need to qualify the audit report.

ISSUE OF GUIDANCE NOTES

In order to bring about a certain standardization in the issue of guidance notes, there are certain points. Two points that have been issued by the Institute of Chartered Accountants of India in the year 2016. The first thing is that when it comes to the issue of guidance notes, the guidance notes will provide a basic structure on the guidance of a particular topic, it will provide guidance on background introduction, scope, objectives. All this will enable the reader to understand on what topic or on what subject the guidance note is being issued.

The paragraphs of a guidance note are numbered consecutively. The guidance note numbers are allocated by the publishing Department of the ICAI. Whenever the ICAI publishes any material it issues an ISBN number. So also a guidance note will have its own ISBN number. Now guidance notes for accounting are numbered differently and guidance notes for auditing are numbered differently. For example, guidance note on accounting will be numbered GN(A) and guidance notes on auditing will be numbered GN(A&S)

The next thing is that once a certain guidance note has been drafted, this draft is exposed to public comments for 30 days. So the ICAI will send a mass email to all its members stating that such a guidance note has been exposed for public comment and the public is expected to give its comments on the guidance. Regional Councils and major branches of the ICAI will constitute study groups to study the various facets of the guidance note as well as the public comments that have been issued, then they will go in for publication of the guidance note.

These are my references. Thank you.