Accounting Standards

> Disclaimer: This document is intended solely for educational purposes. The content herein is subject to change based on evolving finance trends and any relevant rulings by the Government of India. Readers are advised to consult with qualified professionals for specific guidance related to their individual circumstances.

1. Accounting is often said to be a social science. It operates in an open and ever-changing economic environment. The nature of transactions entered into by various enterprises and the circumstances surrounding such transactions differ widely. This characteristic of accounting measurements historically led to the adoption of different accounting practices by different enterprises for dealing with similar transactions or situations.
2. Comparability is one of the important qualitative characteristics of accounting information. This implies that the information should be measured and presented in such a manner that the users are able to compare the information of an enterprise through time and with similar information of other enterprises. Adoption of different accounting practices by different enterprises for similar transactions or situations tends to reduce the comparability and interpretation of accounting information.
3. Recognising the need for bringing about a greater degree of uniformity in accounting measurements, the trend all over the world now is towards formulation of uniform Accounting Standards to be adopted in the preparation of accounting information and its presentation in financial statements. Accounting Standards lay down the rules for recognition, measurement, presentation and disclosure of accounting information by different enterprises.

Applicability of Accounting Standards to NPOs

1. NPOs should follow recognition and measurement principles, within the framework of accrual basis of accounting, for the purpose of preparation of their financial statements.

Sound accounting principles under accrual basis of accounting have been laid down in the Accounting Standards,

2. In India, the ICAI plays a pivotal role in formulating Accounting Standards that are instrumental in carrying out accounting reforms from time to time. ICAI has also recognised the needs of users of financial information of various forms of entities and formulated/ prescribed appropriate sets of Accounting Standards. Accordingly, at present, there are three sets of Accounting Standards:
    1. Indian Accounting Standards (Ind AS) for specified class of companies notified under Companies (Indian Accounting Standards) Rules, 2015 (as amended from time to time);
    2. Accounting Standards (AS) notified under Companies (Accounting Standards) Rules, 2021, (as amended from time to time) for companies other than those following Ind AS;
    3. Accounting Standards (AS) prescribed by ICAI for entities other than companies.

1. **Indian Accounting Standards (Ind AS) for Companies**

In view of global developments and importance of integrating local Accounting Standards with global financial reporting standards, keeping in view the Indian legal and economic scenario, IFRS converged Ind AS have been notified and are applicable to all listed companies and listed Non-Banking Financial Companies (NBFCs) and to unlisted companies and unlisted NBFCs with networth of INR 250 crores or more. Ind AS are also applicable to holding/subsidiaries/joint ventures/associates companies of such companies.

2. **Accounting Standards (AS) notified under Companies (Accounting Standards) Rules, 2021 for companies other than those following Ind AS**

Companies that are not covered under Ind AS, as given in paragraph above, are required to apply Accounting Standards (AS) notified under the Companies Act as Companies (Accounting Standards) Rules, 2021. As on date, Accounting Standards (AS) 1 to 5, 7 and 9 to 29 are effective. As per the Companies (Accounting Standards) Rules, 2021, Small and Medium Companies (SMCs) are given certain exemptions/relaxations.

3. **Accounting Standards (AS) prescribed by ICAI for entities other than companies.**

ICAI, keeping in view the fact that the Accounting Standards (AS) notified under Companies Act will only be applicable to the companies, announced the scheme for applicability of Accounting Standards (AS) issued by ICAI for non-company entities.

It is apparent that the Accounting Standards formulated by the ICAI do not apply to an NPO if no part of the activity of such an entity is commercial, industrial or business in nature. The Standards would apply even if a very small proportion of activities is considered to be commercial, industrial or business in nature. It is, therefore, recommended that all NPOs, irrespective of the fact that no part of the activities is commercial, industrial or business in nature, should follow accrual basis of accounting and Accounting Standards other than for section 8 companies for which specific provisions of the Companies Act 2013 are already applicable. This is because following the Accounting Standards laid down by ICAI would help NPOs to maintain uniformity in the presentation of financial statements, appropriate disclosures and transparency. However, while applying the Accounting Standards certain terms used in the Accounting Standards may need to be modified in the context of the corresponding appropriate terms for NPOs.

Revision #3
Created 2024-07-29 16:29:35 UTC by Pooja
Updated 2024-09-04 04:10:06 UTC by Pooja