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B.Com Honours | Semester II | Calicut University

Accounting Standards for Financial Reporting

Course Code: COM2MN103 • Module 2 Notes

1. Introduction to Accounting Standards: Indian Framework

Accounting Standards (AS) are written policy documents containing rules, guidelines, and principles issued by expert accounting bodies. They govern the recognition, measurement, treatment, presentation, and disclosure of financial transactions in financial statements. This module covers the meaning, definition, objectives, and scope of accounting standards, the role of the Accounting Standards Board (ASB), and the regulatory function of the National Financial Reporting Authority (NFRA).

Objectives and Significance of Accounting Standards

- **Standardization:** Eliminating variations in accounting treatments, bringing uniformity to reporting.
- **Transparency:** Disclosing critical accounting policies so that financial statements represent true operational realities.
- **Creditability:** Providing a benchmark that auditors can use to certify financial statements, building lender trust.

Development of AS in India: The ASB and NFRA

The standard-setting framework in India operates under a structured regulatory hierarchy:

Accounting Standards Board (ASB)

Established in 1977 by the Institute of Chartered Accountants of India (ICAI). It is responsible for identifying areas where standards are needed, drafting the standards, and publishing exposure drafts for public review. ASB works in harmony with international standards.

National Financial Reporting Authority (NFRA)

An independent regulator established under Section 132 of the Companies Act, 2013. NFRA oversees the quality of audit and accounting professions, recommends accounting standards drafted by ICAI to the Central Government for approval, and enforces compliance.

Step-by-Step Procedure of Issuing AS in India

1. **Identification:** The ASB identifies broad areas where standardizing accounting treatment is required.
2. **Study Groups:** ASB constitutes study groups to analyze the identified areas and prepare a draft standard.
3. **Drafting & Dialogue:** A draft is prepared and shared with industry bodies, government representatives, and regulators for feedback.
4. **Exposure Draft:** The draft is published for public comments (exposure period typically 30-60 days).
5. **Finalization:** ASB incorporates comments, finalizes the draft, and submits it to ICAI Council, which recommends it via NFRA to the Ministry of Corporate Affairs (MCA) for government notification.