CHAPTER 4

ACCOUNTING STANDARDS and IFRS

❖ Accounting Standards

Accounting professionals all across the world need to follow accounting practices abided by the accounting standards. In other words, Accounting Standards comprise of a set of accounting guidelines that are issued by the main accounting body. In India, accounting standards are issued by The Institute of Chartered Accountants of India (ICAI).

❖ Usefulness and Significance of Accounting Standards

- These provide a set of ruler on the basis of which accounts are maintained.
- These infuse greater uniformity and easy comparability of financial statements of different firms and different industries.

❖ International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) are a set of standards developed by International Accounting Standard Board (IASB) stating how a particular transaction shall be treated or an event shall be reported in financial statements.

❖ Underlying Assumptions in IFRS

- **Measuring unit assumption:** Measuring unit is the current purchasing power. It means that assets and liabilities are not to be shown at the historical cost in the Balance sheet but at their current or fair value.
- **Units of Constant Purchasing Power:** It requires that inflation prevailing in the country should be accounted for i.e. value of capital should be adjusted to inflation at the end of financial year.
- **Going concern:** It is assumed that life of the business is infinite i.e. the entity will continue to exist for an indefinite period in future.

- **Accrual assumption:** Transactions are recorded on accrual basis i.e. as and when they occur and the actual date of payment or receipt is immaterial.

❖ IFRS Based Financial Statements

1) Statement of Financial Position (Balance Sheet)

2) Statement of Comprehensive Income (Profit and Loss Account)

3) Statement of Changes in Equity

4) Statement of Cash Flows

5) Notes to the Financial Statements