INTRODUCTION TO ACCOUNTING STANDARDS

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CORPORATE DISCLOSURE

- Disclosure, in financial terms, basically refers to the action of making all relevant information about a business available to the public in a timely manner. **What Does "Relevant Information" Mean?**
- Relevant information about a business refers to any and every piece of information, including facts, figures, dates, procedures, innovations, and so on, that can potentially influence an investor's decision.
- Any and every piece of information includes all relevant data, whether advantageous or disadvantageous, positive or negative, fortunate or unfortunate, that could affect the business and, in turn, its investors' decisions.

HOW DISCLOSURES WORK

In the finance and investment world, disclosures are required to be issued by businesses and corporations, disclosing all relevant information that can potentially influence an investor's decision. It helps investors make informed decisions and choose stocks or bonds that may suit their investment needs and investment portfolio.

- Such information disclosures are issued via a disclosure statement, containing all relevant information about the corporation, positive or negative. The disclosures are footnotes at the end of a research report, which provides vital information that one may want to consider while making investment decisions.
- Investment research analysts and strategists also issue disclosure statements in research reports they publish.

IMPORTANCE OF DISCLOSURES

The importance of full disclosure in the corporate and financial world is essential. It is because:

1. Ensures transparency

Increased transparency in the corporations' operations and management makes it easier for investors to make informed decisions. It also cuts down on the possibility of manipulation or misuse of investors' funds.

2. Avoids financial and economic crises

Severe financial and economic crises can be avoided with increased transparency. The 2008 GLOBAL CRISIS is an excellent example of a financial/economic crisis that was largely, if not entirely, the product of the lack of transparency and accountability in the market. It led to the mishandling of investors' funds by corporations and financial organizations.

3. Eliminates insider trading and window dressing

Full disclosure prevents agents with "inside information" in the market from misusing it for personal gain and profit. It also prevents the chance of window dressing and manipulation of accounts, thereby further increasing transparency in the market.

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4.Allows investors to make informed decisions Full disclosure of relevant information by businesses helps investors make informed decisions. It decreases the sentiment of mistrust and speculation and increases investor confidence as they feel fully prepared to make investment decisions with transparency in information at hand.

5. Reduces uncertainty in the market

Full disclosure also reduces uncertainty to a great extent in the market. Uncertainty is one of the most prominent reasons for market volatility. When there is full disclosure by businesses in the market, there is an increased level of overall certainty in the market, thereby decreasing volatility levels and bringing in stability, to some extent, in the market.

INTRODUCTION TO ACCOUNTING STANDARDS

- Financial Statements provide inputs for most business and economic decisions. However, when these statements are not transparent and reliable, it could have a huge negative impact on growth of business enterprises, and economy at large. Hence it is essential to regulate the accounting process that helps in preparing financial statements. In order to provide transparency, consistency, comparability, adequacy and reliability of financial reporting, it is essential to standardise the accounting principles and policies. Accounting standards provide a framework and standard accounting policies so that the financial statements of different enterprises become comparable.

MEANING OF ACCOUNTING STANDARDS

According to ICAI, Accounting standards are "written documents, policies, procedures issued by expert accounting body or government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosures of accounting transactions in the financial statement."

In short, an accounting standard may be regarded as a sort of law- a guide to action, a settled ground or basis of conduct or practice, of accounting. The accounting Standards deal with the issues of:

a. Recognition of events and transactions in the financial statements;
b. Measurement of these transactions and events;

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a. Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader; and

b. The disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions

NEED FOR ACCOUNTING STANDARDS

- In order to avoid the variance which may arise between the accounting principles and accounting practices and also to find uniformity among various diverse underlying principles of accounting.
- b) Comparison between two firms is possible if both of them maintain the same principle, otherwise proper comparison is not possible. For example, if A company follows the FIFO method of valuation of stock whereas firm B follows the LIFO method for valuing stock, the comparison between the two firms becomes useless. The same is possible only when both of them follow identical method of valuing closing stock.
- c) To find uniformity in accounting practice while formulating financial reports and make consistency and proper comparison of data which are contained in financial statements for the users of accounting information.

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- To maintain fairness, consistency and transparency in accounting practices which will satisfy the users of accounting.
- e) To resolve potential conflicts of financial interest among the various external groups that use and rely upon published financial statements.
- f) Accounting standards reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises.
- g) To harmonise accounting policies and practices followed by different business entities so that the diverse accounting practices adopted for various aspects of accounting can be standardised.

SIGNIFICANCE OR ADVANTAGES OF ACCOUNTING STANDARDS

The specific advantages of accounting standards to the user group are:

- 1. They would be useful to investors in judging the yield and risk involved in alternative investments in different companies and different countries.
- 2. The standards enable the public accountants (the Chartered Accountants in India) to deal with their clients by providing rules of authority to which the accountants have to adhere, in their job of preparing the financial statements on a true and fair basis. This makes the accountants ensure commitments and integrity in the profession.
- 3. Accounting standards raise the standards of auditing itself in its task of reporting on the financial statements.
- 4. Government officials, tax authorities and other find accounting reports produced in accordance with established standards to be reliable and acceptable.
- 5. Financial statements thus produced will be reliable documents for the purpose of analysis and interpretation by analysts, researchers and consultants for economic forecasting and planning.

FINANCIAL STANDARDS ACCOUNTING BOARD

In India, Accounting Standards are issued by the Accounting Standards Board of the Institute of Chartered Accountants of India in consultation with the National Advisory Committee on Accounting Standards. The Institute of Chartered Accountants of India, recognising the need to harmonise the diverse accounting policies and practices at 4 present in use in India, constituted the Accounting Standards Board (ASB) on 21st April, 1977.

THE SCOPE AND FUNCTIONS OF FINANCIAL ACCOUNTING STANDARDS BOARD

a. To formulate Accounting Standards so that such standards may be established by the council of the Institute in India, while formulating the accounting standards, ASB will take into consideration the applicable laws, customs, usages and business environment.

b. To support the objectives of International Accounting Standards Committees (IASC) as the institute is one of the members of IASC. ASB will give due consideration to International Accounting Standards while formulating the Accounting Standards to the extent possible in the light of the conditions are practices prevailing in India.

c. To propagate the Accounting Standards and persuade he concerned parties to adopt them in the preparation and presentation of financial statements.

d. To issue guidance notes on the Accounting Standards and give clarifications on issues arising therefrom. e. To review the Accounting Standards at periodical intervals

PROCEDURE FOR ISSUING ACCOUNTING STANDARDS

Accounting Standards are issued by Accounting Standards Board of Institute of Chartered Accountants of India:

The following is the procedure followed for issuing Accounting Standards by the Accounting Standards Board:

- 1. Accounting Standard Board (ASB) shall determine the broad areas in which accounting standards need to be formulated and the priority regard to the selection thereof.
- 2. In the preparation of Accounting Standards, ASB will be assisted by study groups; provision will be made for wide participation by the members of the Institute and others.
- 3. ASB will also hold a dialogue with the representatives of the government, public sector undertakings, industry and other organizations for ascertaining their views.
- 4. On the basis of the work of the study groups and the dialogue with the organizations referred above, an example of draft of the proposed standard will be 5 prepared and issued for comments by members of the Institute and the public at large

INTERNATIONAL ACCOUNTING STANDARDS BOARD

FOLLOWING ARETHE OBJECTIVES OF IASB

- To achieve convergence in accounting standards around the world
- To develop a single set of high quality, understandable, enforceable and globally accepted International Financial Reporting Standards (IFRS) (previously International Accounting Standards (IASs))
- To develop financial reporting standards that provide a faithful portrayal of an entity's financial position and performance in its financial statements
- Those standards should serve investors and other market participants in making informed resource allocation and other economic decisions
- The confidence of all users of financial statements in the transparency and integrity of these statements is critically important for the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth

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- To provide guidance on IFRS
- To promote the use of those standards
- To take account of the financial reporting needs of emerging economies and small and medium-sized entities (SMEs)
- To promote and facilitate adoption of IFRSs through the convergence of national accounting standards and IFRS
- To work actively with national standard setters