ADVANCED ACCOUNTING

5th semester

TOPIC :

ACCOUNTING STANDARDS OBJECTIVES & IMPORTANCE

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ACCOUNTING STANDARDS

CONCEPT OF ACCOUNTING STANDARDS:

We know that Generally Accepted Accounting Principles (GAAP) aims at bringing uniformity and comparability in the financial statements. It can be seen that at many places, GAAP permits a variety of alternative accounting treatments for the same item. For example, different methods for valuation of stock give different results in financial statements.

Such practices sometimes can misguide intended users in taking decision relating to their field. Keeping in view the problems faced by many users of accounting, a need for the development of common accounting standards was aroused.

MEANING OF ACCOUNTING STANDARDS:

Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions, for the preparation of uniform and consistent financial statements and also for other disclosures affecting the different users of accounting information.

Accounting standards lay down the terms and conditions of accounting policies and practices by way of codes, guidelines and adjustments for making the interpretation of the items appearing in the financial statements easy and even their treatment in the books of account.

NATURE OF ACCOUNTING STANDARDS:

On the basis of forgoing discussion we can say that accounting standards are guide, dictator, service provider and harmonizer in the field of accounting process.

(i) Serve as a guide to the accountants:

Accounting standards serve the accountants as a guide in the accounting process. They provide basis on which accounts are prepared. For example, they provide the method of valuation of inventories.

(iii) Serve as a service provider:

Accounting standards comprise the scope of accounting by defining certain terms, presenting the accounting issues, specifying standards, explaining numerous disclosures and implementation date. Thus, accounting standards are descriptive in nature and serve as a service provider.

(ii) Act as a dictator:

Accounting standards act as a dictator in the field of accounting. Like a dictator, in some areas accountants have no choice of their own but to opt for practices other than those stated in the accounting standards. For example, Cash Flow Statement should be prepared in the format prescribed by accounting standard.

(iv) Act as a harmonizer:

Accounting standards are not biased and bring uniformity in accounting methods. They remove the effect of diverse accounting practices and policies. On many occasions, accounting standards develop and provide solutions to specific accounting issues. It is thus clear that whenever there is any conflict on accounting issues, accounting standards act as harmonizer and facilitate solutions for accountants.

OBJECTIVES OF ACCOUNTING STANDARDS:

In earlier days, accounting was just used for recording business transactions of financial nature. Its main emphasis now lies on providing accounting information in the process of decision making.

NEED OF ACCOUNTING STANDARDS

(i) For bringing uniformity in accounting methods:

Accounting standards are required to bring uniformity in accounting methods by proposing standard treatments to the accounting issue. For example, AS-6(Revised) states the methods for depreciation accounting.

(ii) For improving the reliability of the financial statements:

Accounting is a language of business. There are many users of the information provided by accountants who take various decisions relating to their field just on the basis of information contained in financial statements.

In this connection, it is necessary that the financial statements should show true and fair view of the business concern. Accounting standards when used give a sense of faith and reliability to various users. They also help the potential users of the information contained in the financial statements by disclosure norms which make it easy even for a layman to interpret the data.

Accounting standards provide a concrete theory base to the process of accounting. They provide uniformity in accounting which makes the financial statements of different business units, for different years comparable and again facilitate decision making.

(iii) Simplify the accounting information:

Accounting standards prevent the users from reaching any misleading conclusions and make the financial data simpler for everyone.

For example, AS-3 (Revised) clearly classifies the flows of cash in terms of ‘operating activities’, ‘investing activities’ and ‘financing activities’.

(iv) Prevents frauds and manipulations:

Accounting standards prevent manipulation of data by the management and others. By codifying the accounting methods, frauds and manipulations can be minimized.

(v) Helps auditors:

Accounting standards lay down the terms and conditions for accounting policies and practices by way of codes, guidelines and adjustments for making and interpreting the items appearing in the financial statements. Thus, these terms, policies and guidelines etc. become the basis for auditing the books of accounts.

IMPORTANCE OF ACCOUNTING STANDARDS

Accounting Standards plays a very efficient role in the whole accounting system. Some of its important roles are discussed below:

Brings Uniformity in Accounting System

Accounting Standards are the one that helps in bringing the uniformity in whole accounting. It is one important advantage of accounting standards.

Accounting standards sets the same rules & regulations for the treatment of accounting transactions.

It means that all companies record the transactions in the same manner. For example, Accounting Standard-6 governs the whole depreciation accounting. All companies will be following AS-6 for matters concerned with depreciation. This way it brings uniformity in whole accounting procedure.

Easy Comparability of Financial Statements

Accounting standards has made it simplified the comparison of different financial statements. Financial statements of two companies can be easily compared. If two companies are following different accounting system & format, comparison between them becomes quite difficult.

Like if one company follows LIFO method of stock accounting while others follows FIFO method.

Here comparison becomes difficult as two are following different methods. Accounting standards helps in overcoming this problem.

Assists Auditors

Accounting standards helps the auditors in performing their duties. It simplifies their task & makes it easy for them to perform their roles. Accounting Standards have established different standards, rules & regulations to be followed by companies in their accounting system.

These rules & regulations are mandatory to be followed by every company. It governs the whole manner of preparing & presenting financial standards. So if auditor assures that company has followed accounting standards, he can easily verify that all financial standards are fair & true.

Makes Accounting Informative Easy & Simple

Simplifying the whole accounting information is important advantage of accounting standards.

It provides standard rules for each & every accounting transaction. It removes all complexity in the accounting process.

Standard & uniform process is followed. It helps the users in easy understanding & avoids any misleads from it. For example, AS-3 clearly shows the rules regarding flow of cash under 3 main heads. These 3 heads are operating activities, investing activities & financial activities.

Avoids Frauds & Manipulations

Accounting standards plays an efficient role in preventing frauds in the accounting system. Frauds & any accounting data manipulation may adversely affects the organisation.

Accounting standards establishes different accounting rules & principles. These accounting principles govern the whole accounting procedure. These principles are not optional to be followed but are mandatory to be followed.

It becomes almost impossible to misrepresent & manipulate any financial data on part of management. Committing any fraud also become harder for them.

Provides Reliability to Financial Statements

Financial statements are important source of acquiring information regarding companies. Investors & different stakeholders depends on these statements for getting information. These people take important decisions on the basis of this data only.

It is thus very important that these financial statements are true & fair. Accounting standards fully governs these financial statements. It is ensured by accounting standards that these statements are real & trustworthy.

Measures Management Performance

Accounting standards make it easy in determining accountability of management.

It makes it easy to measure the performance of management team & provide any suggestions.

It helps in analyzing management ability in maintaining solvency of the firm, increasing the company's profit & various other important roles. It directs the management to adopt a particular accounting policy. Same policy should be followed constantly to avoid any confusion.

THANK YOU