



learnkwniy

Chapter 5

ACCOUNTING

STANDARD

Accounting Standards

Accounting standards are written policy documents covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions in financial statements.

Accounting standard is an authoritative statement issued by ICAI, a professional body of accounting in our country.

Objectives of Accounting Standard

1. The objective of accounting standard is to bring uniformity in different accounting policies in order to eliminate non-comparability of financial statements for enhancing reliability of financial statements.
2. The accounting standard provides a set of standard accounting policies, valuation norms and disclosure requirements.
3. Accounting standard enhances comparability of financial statements, both intra and inter enterprises. Such comparisons are very effective and widely used for assessment of firms' performance by the users of accounting.

Need for Accounting Standards

Accounting extends information to various users of information.

Accounting information can serve the interest of different users only if it possesses uniformity and full disclosure of relevant information.

There can be alternate accounting treatment and valuation norms which may be used by any business entity. Accounting standard facilitate the scope of those alternatives which fulfil the basic qualitative characteristics of true and fair financial statement.

Benefits of Accounting Standards

- 1. Accounting standard helps in eliminating variations in accounting treatment to prepare financial statements.**
- 2. Accounting standard provide such information might be useful for general public, investors and creditors.**
- 3. Accounting standard facilitate comparability between financial statements of inter and intra companies.**

Limitations of Accounting Standards

- 1. Accounting standard makes choice between different alternate accounting treatments difficult to apply.**
- 2. It is rigidly followed and fails to extend flexibility in applying accounting standards.**
- 3. Accounting standard cannot override the statue. The standards are required to be farmed within the ambit of prevailing status.**