



Certified GAAP Professional Sample Material

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1. THE CONCEPTUAL FRAMEWORK

1.1. Objectives of Financial Reporting

Accounting presents the financial results of a company to various stakeholders through financial statements. If the financial accounting process is not properly regulated, there is possibility of financial statements being misleading, tendentious and providing a distorted picture of the business, rather than the true state of affairs. In order to ensure transparency, consistency, comparability, adequacy and reliability of financial reporting, it is essential to standardize the accounting principles and policies. The Institute of Chartered Accountant of India (ICAI) establishes the policies for the Generally Accepted Accounting Principles of India (Indian GAAP). In this book, 29 Accounting Standards are discussed that are included in the Indian GAAP as published by ICAI. Accounting Standards provide the framework and standard accounting policies so that the financial statements of different organisations become comparable.

The Accounting Standards lower the accounting dissimilarities in the preparation of rational financial statements thereby ensuring comparability of financial statements of different enterprises. The Accounting Standards deal with the issues of recognition of events and transactions in the financial statements, measurement of these transactions and events, presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and 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 these financial statements which helps the users to take prudent and informed business decisions.

The objective of Accounting Standards is to standardize diverse accounting policies with a view to eliminate, to the maximum possible extent, the non-comparability of financial statements and thereby improving the reliability of financial statements, and to provide a set of standard accounting policies, valuation norms and disclosure requirements.

1.2. Characteristics and Limitations of a Financial Report

Accounting standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. By setting the accounting standards the accountant has following benefits:

- ✓ Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.
- ✓ There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.
- ✓ The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards adopted in different countries.

However, there are some limitations of setting of accounting standards:

- ✓ Alternative solutions to certain accounting issues may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become complicated.
- ✓ A trend may occur towards rigidity and digress from flexibility in utilizing the accounting standards.
- ✓ Accounting standards cannot countermand the statute. The standards are required to be structured within the field of current statutes.

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