Accounting Standards

Concept of Accounting Standards

Accounting standards are written statements, issued from time-to-time by institutions of accounting professionals, specifying uniform rules and practices for drawing the financial statements.

Objectives of Accounting Standards

1. **Accounting standards are required to bring uniformity** in accounting practices and policies by proposing standard treatment in preparation of financial statements.
2. **To improve reliability of the financial statements:** Statements prepared by using accounting standards are reliable for various users, because these standards create a sense of confidence among the users.
3. **To prevent frauds and manipulation** by codifying the accounting methods and practices.
4. **To help Auditors**: Accounting standards provide uniformity in accounting practices, so it helps auditors to audit the books of accounts.

IFRS International Financial Reporting Standards

This term refers to the financial standards issued by International Accounting Standards Board (IASB). It is the process of improving the financial reporting internationally to help the participants in the various capital markets of the world and other users.

IFRS Based financial Statements

Following financial statements are produced under IFRS:
1. Statement of financial position: The elements of this statement are-
a. Assets
b. Liability
c. Equity
2. Comprehensive Income statement: The elements of this statement are-
a. Revenue
b. Expense
3. Statement of changes in Equity
4. Statement of Cash flow
5. Notes and significant accounting policies

Main difference between IFRS and IAS (Indian Accounting Standards)

1. IFRS are principle based while IAS are rule based.
2. IFRS are based on Fair Value while IAS are based on Historical Cost.

Goods and Services Tax (GST)

GST is a destination-based tax on consumption of goods and services. The concept of destination-based tax on consumption implies that the tax would accrue to the taxing authority which has jurisdiction over the place of consumption which is also termed as place of supply. There are three main components of GST which are CGST, SGST, CGST means Central Goods and Services Tax. Taxes collected under CGST will constitute the revenues of the Central Government. The present central taxes like central excise duty, additional excise duty, special excise duty, central sales tax etc., will be subsumed under CGST. SGST means State Good and Services Tax. A collection of SGST is the revenue of the State Government. With GST all state taxes like VAT, entertainment tax, luxury tax, entry tax etc, will be merged with GST.
For example, Roma, a dealer in Punjab sell goods to Seema in Punjab worth ₹ 10,000. If the GST rate is 18%, i.e., 9% CGST and 9% SGST, ₹ 900 will go to Central Government and ₹ 900 will go to the Punjab Government.

IGST means Integrated Goods and Services Tax. The revenue collected under IGST is divided between Central and State Government as per the rates specified by the Government. IGST is charged on transfer of goods and services from one state to another. Import of goods and services are also covered under IGST.

Characteristics of Goods and Services Tax

1. GST is a common law and procedure throughout the country under single administration.
2. GST is a destination-based tax and levied at a single point at the time of consumption of goods and services by the end consumer.
3. GST is a comprehensive levy and collection on both goods and services at the same rate with benefit of input tax credit or subtraction of value.
4. Minimum number of rates of tax does not exceed two.
5. There is no scope for levy of cess, resale tax, additional tax, turnover tax etc.
6. There is no multiple levies of tax on goods and services, such as sales tax, entry tax, octroi, entertainment tax or luxury tax etc.

Advantages of Goods and Services Tax

1. Introduction of GST has resulted in the abolition of multiple types of taxes in goods and services.
2. GST widens the tax base and increased revenue to Centre and State thereby reducing administrative cost for the Government.
3. GST has reduced compliance cost and increases voluntary compliance.
4. GST has affected rates of tax to the maximum of two floor rates.
5. GST has removed the cascading effect on taxation.
6. GST will result in enhancing manufacturing and distribution system affecting the cost of production of goods and services and consequently the demand and production of goods and services will increase.
7. It will eventually promote economic efficiency and sustainable long-term economic growth as GST is neutral to business processes, business models, organisational structure and geographical location.
8. GST would help to extend competitive edge in international market for goods and services produced in the country leading to increased exports.