

## PRESS NOTE

### **SUBJECT : NOTIFICATION OF ACCOUNTING STANDARDS BY THE CENTRAL GOVERNMENT UNDER THE COMPANIES ACT, 1956.**

The Government recognises the importance of financial reporting in providing essential financial information about the company to its shareholders and other stakeholders, as an integral and important part of good corporate governance. Such information needs to be reliable, free from bias and should enable comparison on the basis of common benchmarks. This, in turn, necessitates an appropriate, financial reporting system in the form of accounting standards that incorporate sound accounting principles and reflect a true picture of the financial health of the company while ensuring legally enforceable accountability.

2. The work of formulating down accounting standards for the companies operating in India was initiated when the Institute of Chartered Accountants of India (ICAI), a statutory body regulating the accounting profession in the country, first took up this task in 1977. However, the accounting standards prepared and issued by the ICAI were mandatory only for its members, who, while discharging their audit function, were required to examine whether the said standards of accounting were complied with. With the amendment of the Companies Act, 1956 through the Companies (Amendment) Act, 1999, accounting standards as well as the manner in which they were to be prescribed, were provided a statutory backing.

3. Today, in pursuance of the statutory mandate provided under the Companies Act, 1956, the Central Government prescribes accounting standards in consultation with the National Advisory Committee on Accounting Standards (NACAS), also established under the Companies Act, 1956. NACAS, a body of experts including representatives of various regulatory bodies and Government agencies, has been engaged in the exercise of examining Accounting Standards prepared by ICAI for use by Indian corporate entities, since its constitution in 2001. In this exercise, it has adapted the international norms established by the

International Financial Reporting Standards issued by the International Accounting Standards Board.

4. The Central Government notified 28 Accounting Standards (AS 1 to 7 and AS 9 to 29) in December 2006 in the form of Companies (Accounting Standard) Rules, 2006, after receiving recommendations of NACAS. These Accounting Standards are to be applied with effect from company financial year 2007-08, the accounts with respect to which are to be finalised during 2008-09. In notifying the Accounting Standards, the Government has adopted a policy of enabling disclosure of company accounts in a transparent manner at par with widely accepted international practices, through a process of convergence with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). In doing so, the requirements of the companies functioning in the country are being kept in view. The initiative for harmonization of the Indian accounting standards with IFRS, taken up by NACAS in 2001 and implemented through notification of accounting standards by the Central Government in 2006, would be continued by the Government with the intention of achieving convergence with IFRS by 2011.

5. Consistent with international practices, the accounting standards are prepared in India in context of the issues concerning large publicly held and listed corporate entities so as to enable the widest possible coverage of financial issues concerning a corporate entity. Consequently, some of the requirements of accounting standards may prove to be onerous for Small and Medium Companies (SMCs), who may not have the necessary resources to apply these requirements and incur associated compliance costs. Also, users of financial statements of the SMCs and their information requirements may also have limited requirements. Keeping this in view, necessary exemptions and relaxations to SMCs have been incorporated in the accounting standards on the recommendation of NACAS to enable them to apply the broad framework of the Accounting Standards in a simple manner.

6. The accounting and financial reporting practices need to change and evolve with the changing business and economic situation. Accounting practices prevailing in the country would also need to develop likewise. The institutional arrangements under the Companies Act, 1956 enable such developments through the efforts of NACAS and with inputs from ICAI and other quarters to meet the

requirements of a changing economy. In this context, ICAI would continue to prepare and hold public consultation on standards of accounting for general application to various entities. It may also issue advice and guidance to its members to consider following certain practices approved by it in pursuance of prudence. The Government would examine further accounting standards to be followed by companies, on the basis of the standards proposed by ICAI, subject to the recommendations of NACAS thereon, for notification in accordance with the procedure laid down under the Companies Act, 1956. In the process, the approach of convergence with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), being increasingly accepted as a common standard internationally, would be continued so that the financial information disclosed by Indian companies compares well with that disclosed by non-Indian companies in compliance with IFRS. This would not only provide reliable financial information to investors globally but also lower compliance costs since the need for restatement of accounts would be obviated for Indian companies seeking to tap international financial markets.

7. The Ministry of Corporate Affairs would, through the reform of accounting standards, continue to strengthen the corporate financial systems, at par in the best international practices, in the interest of all stakeholders to meet the requirements of India's changing economy.

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Dated the 13th May, 2008

Ministry of Corporate Affairs

**The Press Information Officer, Press Information Bureau,  
Ministry of Information and Broadcasting, with the request that the  
above mentioned Press Note may be given wide publicity.**

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