Volume No:2, Issue No:7 (July-2017)
ISSN No : 2455–7595 (Online)
International Journal of Research in Management Studies
A Peer Reviewed Open Access International Journal
www.ijrms

Indian Accounting Standards with respect to International Accounting Standards & Practices

Samala Hema
Sri Thirumala Home, Flat No 203,
Seethafalmandi, Near Ambedkar Statue,
Hyderabad.

ABSTRACT:

Globalization has laid down a way for all the countries to adopt a single set of accounting standards. Recent years have seen major changes in financial reporting worldwide under which the most obvious is the continuing adoption of IFRS worldwide. More than 100 countries have converged or recognized the police of convergence with the IFRS. IFRS are the globally accepted accounting standards and interpretations adopted by the IASB.An upcoming economy on world economic map, India, too, decided to converge to International Financial Reporting Standards (IFRS). In India, ICAI has decided to adopt the IFRS by April 2011. The present paper discusses the need for the Convergence of Indian Accounting Standards (IAS) with IFRS and the utility for India in the problems and challenges faced by the stakeholders and its impact on India. The development of harmonized accounting rules and a uniformity of approach among countries towards education and training of professional accountants should accompany principles. Furthermore, the harmonization of accounting rules and principles among countries should also be accompanied by inter country harmonization in auditing principles and standards

Key Words: ***IFRS, IAS, Convergence, Globalization, India***

1. INTRODUCTION:

Accounting Standards are used as one of the main compulsory regulatory mechanisms for preparation of general-purpose financial reports and subsequent audit of the same, in almost all countries of the world. Accounting standards are concerned with the system of measurement and disclosure rules for preparation and presentation of financial statements. They appear with a set of authoritative statements of how particular types of transactions, events and other costs should be recognized and reported in the financial statements. Accounting standards are devised to furnish useful information to different users of the financial statements, to such as shareholders, creditors, lenders, management, investors, suppliers, competitors, researchers, regulatory bodies and society at large and so on. In fact, such statements are designed and prescribed so as to improve & benchmark the quality of financial reporting.

The rapid growth of international trade and internationalization of firms, the Developments of new communication technologies, the emergence of international competitive forces is perturbing the financial environment to a great extent. Under this global business scenario, the residents of the business community are in badly needed of a common accounting language that should be spoken by all of them across the globe. A financial reporting system of global standard is a pre-requisite for attracting foreign as well as present and prospective investors at home alike that should be achieved through harmonization of accounting standards.

Accounting Standards are the policy documents (authoritative statements of best accounting practice) issued by recognized expert accountancy bodies relating to various aspects of measurement, treatment and disclosure of accounting transactions and events. As relate to the codification of Generally Accepted Accounting Principles (GAAP). These are stated to be norms of accounting policies and practices by way of codes or guidelines to direct as to how the items, which go to make up the financial statements should be dealt with in accounts and presented in the annual accounts. The aim of setting standards is to bring about uniformity in financial reporting and to ensure consistency and comparability in the data published by enterprises.

OBJECTIVES OF THE STUDY

1. To study the current status of the various Accounting standards.
2. To know the significance of Convergenceof global accounting standards.
3. To understand the issues& Challenges in globalizing the accounting standards.
4. To study the measures that could be adopted to address the Challenges.

Accounting standards prevalent all across the world:

Accounting standards are being established both at national and international levels. But the variety of accounting standards and principles among the nations of the world has been a sustainable problem for globalizing the business environment.

There are several standard setting bodies and organizations that are now actively involved in the process of harmonization of accounting practices. The most remarkable phenomenon in the sphere of promoting global harmonization process in accounting is the emergence of international accounting standards.

The International Accounting Committee (IASC), now International Accounting Standards Board (IASB) was formed on 29th June 1973, by the recognized professional accounting bodies in Canada, Australia, France, Japan, Germany, Mexico, Netherlands, United Kingdom and the United States of America, with its secretariat and head quarters in London.

National standard setting bodies like Financial Accounting Standards Boards (FASB) of USA, Accounting Standards Boards (ASB) of UK, and Indian Accounting Standards (IAS) in India generally frame accounting standards in the line of IASC after due consideration of the local laws and conditions.

In India the Accounting Standards Board (ASB) was constituted by the Institute of Chartered Accountants of India (ICAI) on 21st April 1977 with the function of formulating accounting standards.

Need to harmonize the accounting standards of different bodies

Different companies observe it from published annual accounts of various Indian companies that there are divergent accounting practices for the same transaction. This in effect is defeating the comparability of financial statements.

The reasons for the different accounting practices may be:

a) Too many alternative accounting treatments in the accounting standards;

b) Lack of harmony among government, standards setting body, and regulatory agencies;

Adoption of different accounting standards causes difficulties in making relative evaluation of performance of companies. This phenomenon hinders the valuation and consequently the decision making process.

To overcome these problems, harmonization of accounting standards has already been started. Accounting harmonization is not an end by itself, but it is a means to an end. The ultimate objective of Convergence accounting practices among countries is to foster international comparability of accounts.

But still the harmonization process has a long way to go. Many standard setting bodies and regulators of different nations are ardent protectors of their local standards, they are in no mood to allow their job being taken over by a foreign entity.

Thus winning the consent of these bodies is vital for international accounting standards to don the mantle of common accounting code, i.e. harmonization of common accounting standards, which will make implementing countries more competitive internationally.

Accounting standards vary from one country to another. There are various factors that are responsible for this. Some of the important factors are
- legal structure
- sources of corporate finance
- maturity of accounting profession
- degree of conformity of financial accounts
- government participation in accounting and
- Degree of exposure to international market.

Diversity in accounting standards not only means additional cost of financial reporting but can cause difficulties to multinational groups in the manner in which they undertake transactions. It is quite possible for a transaction to give rise to a profit under the accounting standards of one country where as it may require a deferral under the standards of another.

- When a multinational company (MNC) has to report under the standards of both the countries it might lead to some extremely odd results. For instance, Daimler Benz, who was the first German to secure stock market listing in the United States, reported a net profit of DM 158 m for the six months to June 1998 based on German GAAP. The U.S GAAP reconciliation statement revealed that the company had incurred a loss of DM. 949m.
- Similarly, British Telecom Inc. reported a net profit of £1767 for the year ended 31-3-1994 under the UK GAAP but under the US GAAP reconciliation- the net profit reduced to £1476.

- Although there are different solutions that have been suggested to resolve the problems associated with filling financial statements across national boundaries like reciprocity and reconciliation, but they not free from limitations. International accounting standards serves the purpose of reducing diversity in accounting practices but invites qualitative differences of financial accounting and reporting systems.

Again these qualitative differences may be removed if a single set of internationally accepted standards can be used for all cross-border listed financial statements. These differences may be reduced if the recognized professional accounting bodies of the world arrange a happy marriage between the national and international accounting standards. - Issues in adopting global accounting standards: -There seems to be a reluctance to adopt the International Accounting Standards Committee (IASC) norms in the US?

This is definitely a problem. The US is the largest market and it is important for IASC standards to be harmonized with those prevailing there. The US lobby is strong, and they have formed the G4 nations, with the UK, Canada, and Australia (with New Zealand) as the other members. IASC merely enjoys observer status in the meetings of the G4, and cannot vote. Even when the standards are only slightly different, the US accounting body treats them as a big difference, the idea being to show that their standards are the best. We have to work towards bringing about greater acceptance of the IASC standards.

The developed Countries (G4) has evolved as a standard setting body and has recently issued its first standard on pooling of interest method. (Mergers can either be in the nature of purchase or in the form of pooling of interest like HLL-BBLIL). It is also expected to publish new or revised papers on reporting financial performance, business combinations, joint ventures, leases, and contributions. So far, the FASB (the US standard setting body) was the world's standard setter because of mandatory compliance with

US GAAP for listing on the New York Stock Exchange (NYSE). The US congress had to, however, step in and overrule the FASB standard on stock option.

The current status of IAS (Indian Accounting Standards):

In India, the Statements on Accounting Standards are issued by the Institute Of Chartered Accountants of India (ICAI) to establish standards that have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards in India (India GAAP). From 1973 to 2000 the IASC has issued 32 accounting standards. These standards, as a matter of fact, most of the countries in the world, which are interested, and confidence in adopting these standards may be followed. But it is observed that many countries are not adopting the standards in the presentation of accounting information. IFRS are formulated by International Accounting Standard Board. However, the responsibility of convergence with IFRS vests with local government and accounting and regulatory bodies, such as the ICAI in India. Thus ICAI need to invest in infrastructure to ensure compliance with IFRS.

ISSUES:

India has several constraints and practical challenges to adoption and compliance with IFRS. So there is a need to change some laws and regulations governing financial accounting and reporting in India. There are some legal requirements which determine the manner in which financial information are presented in financial statements. For example,The Companies Act provides the format for preparation of financial statement but this may be different from the requirement under IFRS. One more exam is related to Business Combination-under Indian GAAP, acquisitions are accounted at book values of identifiable assets and liabilities of the acquire, with the excess of consideration over the net book value recognized as goodwill. Under IFRS, accounting is done for all assets including hidden intangibles at fair value. As the assets are recognized at fair value, amortization of these assets will reduce future year profits under IFRS. Other problem is there is lack of adequate professionals with practical experience of IFRS conversion; therefore Indian Companies have to rely upon external advisors and auditors which are costly. Another issue is Indian GAAP should have been formulated on the basis of the principles of IFRS which may shows differences between Indian GAAP and IFRS. At the end some principles need to be amended, implements or remove in the Indian GAAP. For example, use of pooling of interests method in accounting for business combination is not available in the principles of IFRS. Thus it should be eliminated from Indian GAAP.

CHALLENGES:

Therefore there are several challenges that will be faced on the way of IFRS convergence.

These are:

1.Difference in GAAP and IFRS:Adoption of IFRS means that the entire set of financial statements will be required to undergo a drastic change. The differences are wide and very deep routed.It would be a challenge to bring about awareness of IFRS and its impact among the users of financial statements.

2.Issue of GAAP Reconciliation: The Securities Exchange Commission(SEC) laid out two options in its proposal-one calling for the traditional IFRS first-time adoption reconciliation, the other requiring that step plus an on-going unaudited reconciliation of the financial statements from IFRS to U.S. GAAP which is clearly more costly approach for companies and for investors.

3.Training and Education: Lack of training facilities and academic courses on IFRS will also pose challenge in India. There is a need to impart education and training on IFRS and its application. 4.Legal and Regulatory considerations: Currently, the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will pose a challenge unless the same is been addressed by respective regulatory.

5.Taxation:IFRS convergence would affect most of the items in the financial statements and consequently the tax liabilities would also undergo a change. Thus the taxation laws should address the treatment of tax liabilities arising on convergence from Indian GAAP to IFRS.

6.Fair value Measurement:IFRS uses fair value as a measurement base for valuing most of the items of financial statements. The use of fair value accounting can bring a lot of instability and prejudice to the financial statements. It also involves a lot of hard work in arriving at the fair value and valuation experts have to be used.

7.Re-negotiation of Contract: The contracts would have to be re-negotiated which is also a big challenge. This is because the financialresults under IFRS are likely to be very different from those under the Indian GAAP.

8.Reportingsystems: Companies would have to ensure that the existing business reporting model is amended to suitthe reporting requirements of IFRS. The informationsystems should be designed to capture new requirementsrelated to fixed assets, segment disclosures, related party transactions, etc.

MEASURES TAKEN TO ADDRESS THE CHALLENGES

1.For changes required in rules and regulations of various regulatory bodies, draft recommendations have been placed before Accounting Standard Board.

2.The ICAI issued 30 interpretations of accounting standards, with a view to resolve various intricate Research Directions interpretational issues arising in the implementation of new accounting standards.

3.Guidance notes have been issued by ICAI for providing immediate guidance on accounting issues.

4.To facilitate discussions at seminar, workshops, etc,ICAI has issued background material on newly issued accounting standards.

5.For the purpose of assisting its members, the ICAI council has formed an expert advisory committee to answer queries from its members. Moreover to face the challenges we need to take more effective steps like we should build adequate IFRS skills professionals by investing in training processes for Indian accounting professionals to manage the conversion projects for Indian corporate. This can be done by research on effect of IFRS conversion in different countries and brief knowledge of IFRS should be added into the studies for professional courses with worldwide latest examples.

CONCLUSION:

From the above discussion it is very much clear that conversion from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended because the measures taken by ICAI and the otherregulatory bodies to facilitate the smooth convergence to IFRS are creditable and give the positive ideathat the country is ready for convergence. Keeping in mind the fact that IFRS is more a principle based approach with limited implementation and application guidance all accountants whether practicing or no practicing have to participate and contribute effectively to the convergence process so the need is to have a systematic approach to make the organization and the investors ready for the change and the standards ready for renovation. Moreover, corporates need to gear themselves for constant updation and not only for the first time adoption. This would lead to subsequent revisions from time to time arising from its global implementation and would help in formulation of future international accounting standards.

Bringing about harmonization in accounting practices among countries throughout the world is indeed a very formidable task. The vision of a harmonized accounting world may inspire many minds but in the practical field it is hard to go about embracing a situation where accounting principles and procedures are perfectly harmonized among countries throughout the world.Many of the initial hurdles have been overcome and much progress towards Convergence accounting principles and procedures among countries has already been achieved. Differences are still there but they are narrowing. It is expected that the pace of progress in the sphere of harmonization will accelerate further in the coming years.

REFERENCES:

1.The Case for Global Accounting Standards: Arguments and Evidence by Ann Tarca Professor of Accounting, University of Western Australia. Academic Fellow - Research, IFRS Foundation1T.S.Grewal- - Double Entry Book Keeping

2.The Institute of Chartered Accountants of India (2007),58th Annual Report, September, New Delhi.www.ifrs.icai.org. Retrievedon Sept 30,2013.

3.Mahender K. Sharma, IFRS & India – its problems and challenges, International Multidisciplinary Journal of Applied Research Vol: 1/Issue: 4/ July 2013/ ISSN 2320 - 7620

4.Poria, Saxena, Vandana, 2009, IFRS Implementation and Challenges in India, MEDC Monthly Economic Digest. Retrieved on Dec 12,2013.

5.SunitaAjaykumarRai, IFRS- Problems and Challenges in First Time Adoption, International Indexed & Referred Research Journal, Vol. I /Issue-1/April/2012/ISSN- 2250-2556

6.Shri A.K. Chowdhury , Department of Accounting, University of Western Sydney, Australia – "Compliance with accounting standards in India, why and how?" (Management accountant, March 2000, ICWAI.)

7.Dr. K. Raji Reddy, reader in Commerce, Department of Commerce and Business Management, Kakatiya University, Warrangal (A.P) and Shri V PrudviRaju, Counsellor, SDLCE Study Centre, L.B. College, Warrangal. – "Accounting standards and Gaps in Practices in India." (Management accountant, April 2000, ICWAI.).)

8.Dr. JagannathHati W , and DebdasRakshit Lecturer in Commerce, Syamsundar College, Burdwan, West Bengal.- "Integrating accounting standards — A step towards harmonization " (Management accountant, ICWAI .)