

EVALUATION OF INDIAN ACCOUNTING STANDARD

Amul Kotadia*

Abstract

For harmonization and standardization of accounting policies at international level, the International Accounting Standard Committee (IASC) was established in 1973. The Institute of Chartered Accountants of India (ICAI), fully recognising the need of harmonizing the diverse accounting policies and practices established “Accounting Standards Board” on 21st April, 1977. 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. The constitution of ASB gives adequate representation to all interested parties and, at present, it consist of members of the council and representatives of Industry, banks, Company Law Board, Central Board of Direct Taxes and the Comptroller and Auditor General of India, Security Exchange Board of India etc.

India is slowly entering the arena of accounting standards. The progress of formulation of accounting standards has been very slow compared with the developments at international levels. 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. Further more, the harmonization of accounting rules and principles among countries should also be accompanied by inter country harmonization in auditing principles and standards.

Key points:

- 1) Need of harmonizing global accounting standard
- 2) Need of faster formulation of accounting standard
- 3) Reducing gap between the national and international accounting standards.

* Prof.(M.Com., D.T.P.,) Shri Patel Kelavani Mandal College of Tech. & B.Ed. College Road, Opp. Haweliwadi, Junagadh.

Accounting Standards are written document, policy documents issued by expert accounting body or by Government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transaction in the financial statement. Accounting Standards in India are issued by the Institute of Chartered Accountants of India (ICAI).

For harmonization and standardization of accounting policies at international level, the International Accounting Standard Committee (IASC) was established in 1973. The Institute of Chartered Accountants of India (ICAI), fully recognizing the need of harmonizing the diverse accounting policies and practices established “Accounting Standards Board” on 21st April, 1977. The constitution of ASB gives adequate representation to all interested parties and, at present, it consist of members of the council and representatives of Industry, banks, Company Law Board, Central Board of Direct Taxes and the Comptroller and Auditor General of India, Security Exchange Board of India etc.

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. 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. 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.

Limitations & How to overcome these limitations?

- 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 harmonizing accounting practices among countries is to foster international comparability of accounts.

- 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 too many alternative accounting treatments in the accounting standards, Lack of harmony among government, standards setting body, and regulatory agencies.
- 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 and government participation in accounting. 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. 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 co-ordination between the national and international accounting standards.

- 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 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. With a view to

examine the time gap for indianisation of International Accounting Standards, the information is analyzed and presented in the following table shows that the average gap for indianisation of International Accounting Standards is 6.13 years. It shows that for adopting IAS in India, it is taking 6.13 years for one accounting standard. This analysis points out the poor research work, and development in the accounting field.

List of Indian accounting standards adopted from IASC with time gap in years

Sr. no. of IAS (Indian Accounting Standard)	Year of IAS (Indian Accounting Standard)	Corresponding IAS (International Accounting Standards)	Year of issue of IAS (International Accounting Standards)	Time Gap (in years)
1	1979	1	1975	4
2	1981	2	1975	6
3	1981	7	1977	4
4	1982	10	1978	4
5	1982	8	1978	4
6	1982	4	1976	6
7	1983	11	1979	4
8	1985	9	1978	7
9	1985	18	1982	3
10	1985	16	1982	3
11	1989	21	1983	6
12	1991	20	1983	8
13	1995	25	1986	9
14	1995	22	1983	12
15	1995	19	1983	12

Required planning for restatements of financial statements under India GAAP to U.S. GAAP:

The following areas under which planning are required:

- Personnel involvement within the accounts functions and fixed the time limit within which the task is to be completed.
- Identification of significant accounting policies that would need to be disclosed under U.S. GAAP and the differences that exist between India GAAP and U.S. GAAP.
- The extent of training required within the organization to create an awareness of the requirements under U.S. GAAP.
- Restatement of Subsidiaries and sister companies accounts in conformity with U.S. GAAP.
- Required adjustment entries for conversion of India GAAP accounts.
- Reconciliation of differences arising on restatement to U.S. GAAP in respect of income for the periods under review and for the statement of Shareholder's equity.

At the last:

India is slowly entering the arena of accounting standards. But the progress of formulation of accounting standards has been very slow compared with the developments at international levels. 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 through out the world. The development of harmonized accounting rules and a uniformity of approach among countries towards education and training of professional accountants should accompany principles. Further more, the harmonization of accounting rules and principles among countries should also be accompanied by inter country harmonization in auditing principles and standards. Harmonization initiatives are now working much more effectively than ever before. Many of the initial hurdles have been overcome and much progress towards harmonizing 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.

Reference

- www.icaai.org/resource/o_ac_standard.html
- www.icaai.org/resource/o_ac_standard.html
- The Indian Express
- India Infoline Newsletter - Vineet Madan, IMT Ghaziabad "RE-STATEMENT UNDER US GAAP"

