ACCOUNTING STANDARDS IN INDIA

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ABSTRACT

While preparing these financial statements, enterprises adopt different accounting policies. Some of these policies are discretionary in nature. Consequently, the financial statements prepared by one enterprises may be based on one set of policies, while other policies may be adopted by other enterprises. This result in that the financial statements are not comparable from one enterprise to another and also from one period to another. The accounting standards provide a framework and standard accounting policies so that the financial statements of different enterprises become comparable.
Accounting standards are the rules (framed by an expert committee) in relation to recognition, measurement and disclosure of financial information in preparation of financial statements. The basic objective of accounting standards is to standardize the accounting principles and policies with a view to bring a common approach in preparation of financial statements. The accounting standards also aim to provide valuation of inventories. The accounting standards help in presenting a 'true and fair' view of the operations and financial positions of an enterprise in its financial statement.

Keywords: Accounting Standards, Financialcial Statements,Accounting Policies

INTRODUCTION:

CONCEPT :

Accounting Standards are written documents, 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).

SETTING OF ACCOUNTING STANDARDS:

Accounting standards have been and are being formulated at different levels. At the international level, the accounting standards are set up by the International Accounting Standards Board. For different countries, the accounting standards are formulated by a duly recognized and constituted authority keeping in view (i) the objective of harmonizing the national accounting standards with international accounting standards, and (ii) the legal provisions, accounting practices and other factors relating to that particular country. In India, the process of formulation of accounting standards was initiated in April 1977 when the Institute of Chartered Accountants of India (ICAI) constituted Accounting Standard Board (ASB)

THE CURRENT SCENARIO:

It will not be an exaggeration to say that the process of setting accounting standards in India has come long way from above scenario. With the changed economic scenario and the adoption of liberalization and globalization, the standards set by ICAI have come to acquire the contemporary flavor. Not only the areas chosen for standard setting represent current concerns of business in India and those dealing with them, the focus of the standard are more on providing assurance to the local and foreign investors about the reliability of the financial statement prepared by businesses in India.

Following liberalization and globalization, there has been a dynamic growth in the Indian financial market. Good accounting practices backed by high ethical standards are necessary to achieve and maintain investor's confidence, which is critical to the growth and success of any financial market. The need of global financial reporting frame work has heightened, as the foreign investors are eyeing India as their destination and the Indian corporate are eyeing markets abroad.

Indian being a member of International Accounting Standards Committee (IASC), its accounting standards are closely are closely modeled on IAS's, except for a few deviations which are necessitated by the custom and business environment prevailing in the country. In support of its commitment to adopt IAS's the Accounting Standards Board (ASB), as a part of its improvement project, is examining the various standard revised by IASB to initiate revision in its corresponding accounting standard. The board has also prepared comparative statements which are considered irrelevant in the context of economic and business scenario and the balance which are under preparation. This brings out the fact that India will continue to adopt International Financial Reporting Standards with few modifications to cater to the requirements of the local climate.

Procedure for issue of Accounting Standards in India

ICAI constituted Accounting Standard Board (ASB) in 1977 to formulate Accounting Standards in India so that the diverse accounting policies and practices may be harmonized. While formulating the standards, the ASB takes into consideration the applicable law, usage, customs and business environment in India. ASB gives due consideration to International Accounting Standards and integrate them to the extent possible, in the light of conditions and practices prevailing in India. The board procedure for formulation of Accounting Standards in India is as follows:

1. The ASB to determine the board areas in which Accounting Standards need to be formulated.
2. In formulation of Accounting Standards, opinions of Study Group (constituted for the purpose) are incorporated. These Study Group may consist of members of ICAI and others.
3. ASB also holds a dialogue with the representatives of Government, Public Sector, Industry and other organizations.
4. On the basis of the recommendations of the Study Groups and other representatives, the ASB prepares and issues an Exposure Draft of the proposed Accounting Standard for the purpose of comments by the members of ICAI and the public at large.
5. On the basis of the comments received with reference to Exposure Draft, the draft of the Accounting Standards is finalized and submitted to the Central Council of the ICAI.
6. The Council considers the final draft of the proposed standard and modify the same, if necessary, in consultation with the ASB. The Accounting Standard, then, may be issued under the authority of the Council

of the ICAI. The ICAI has, so far, issued 29 Standards in all. Out of these, AS-8 ‘ Research and Development’ has been withdrawn by ICAI consequent to the issue of AS-26. The list of all these standards (AS-1 to AS-29) is given in the Table 1.1

Table 1.1 Lists of Accounting Standards in India

Accounting Standards (AS)	Title of the Accounting Standards
AS-1	Disclosure of Accounting Policies
AS-2(Revised)	Valuation of Inventories
AS-3(Revised)	Cash Flow Statements
AS-4(Revised)	Contingencies and Events Occurring after the Balance Sheet Date
AS-5(Revised)	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS-6(Revised)	Depreciation Accounting
AS-7(Revised)	Accounting for Construction Contracts
AS-9	Revenue Recognition
AS-10	Accounting for Fixed Assets
AS-11(Revised 2003)	The Effects of Changes in Foreign Exchange Rates
AS-12	Accounting for Government Grants
AS-13	Accounting for Investments
AS-14	Accounting for Amalgamations
AS-15	Accounting for Retirement Benefits in the Financial Statements of Employers
AS-16	Borrowing Costs
AS-17	Segment Reporting
AS-18	Related Party Disclosures
AS-19	Leases
AS-20	Earning Per Share
AS-21	Consolidated Financial Statements
AS-22	Accounting for Taxes on Income
AS-23	Accounting for Investment in Associates in Consolidated Financial Statements
AS-24	Discontinuing Operations
AS-25	Interim Financial Reporting
AS-26	Intangible Assets
AS-27	Financial Reporting of Interest in Joint Ventures
AS-28	Impairment of Assets
AS-29	Provisions, Contingent Liabilities and Contingent Assets

DISCLOSURE NEEDS ARISE BECAUSE ACCOUNTING POLICIES CAN DIFFER:

Accounting principles and methods can differ between one enterprise and another, in the areas of recognition, treatment or valuation of assets, or recognition of transactions or events. An illustrative list of examples is given below:

i. Accounting conventions followed
ii. Basis of accounting – Historical or Current cost
iii. Valuation of inventory
iv. Valuation of investments
v. Valuation of fixed assets including revaluation
vi. Policies relating to depreciation of fixed assets
vii. Translation of foreign currency transactions or items
viii. Treatment of Government grants
ix. Treatment of goodwill
x. Recognition of a liability for retirement benefits
xi. Recognition of profit on long – term contracts
xii. Absorption of costs incurred on research and development
xiii. Treatment of preliminary, or , capital issue expenses
xiv. Treatment of Lease rental income or lease rental payment

xv. Treatment of expenditure during construction
xvi. Treatment of contingent liabilities.

OBJECTIVE OF ACCOUNTING STANDARDS:

Objective of Accounting Standards is to standardize the diverse accounting policies and practices with a view to eliminate to the extent possible the non – comparability of financial statements and add the reliability to the financial statements.

The Institute of Chartered Accountants of India, recognizing the need to harmonize the diverse accounting policies and practices, constituted an Accounting Standard Board (ASB) on 21st April, 1977.

HARMONIZING ACCOUNTING STANDARDS: DO WE NEED IT?

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 comparison of financial statements. The reason for the different accounting practices may be:

a) Too many alternative accounting treatments in accounting standards.
b) Lack of hannony 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 or accounting standards has already been started– Accounting Harmonization is not an end by itself, but if is a mean to end. The ultimate objective of harmonizing accounting practices among the countries is to foster international comparability of accounts.
- But still harmonization process has a long way to go. Many standard settings bodies and regulator of different nations are ardent protectors of their local standards, they are in no mood to allow their jibs been taken over 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 mean 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 profit under the accounting standards of one country whereas it may require a deferral under the standards of another

When a multinational company has to report under the standards of both the Countries, it might lead to some extremely odd results. For instance, Daimler Ben/., who was the first German to secure the stock market listing in the United States, 'reported a net profit of DM .' 5Xm "for the six months J99 & based on German GAAP. The US (IAAP reconciliation statement revealed 'hat the company incurred I 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 b.ii 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 are not free from limitations. IAS's serves the purpose of reducing diversity in accounting practices but invites qualitative difference of financial accounting and reporting systems.

COMPARISON OF AS 1 WITH IAS AND US GAAP:

AS 1	IAS 1	US GAAP
Defines accounting Policies, as specific accounting principles	Defines overall considerations for financial statements, besides	Defines accounting policies as specific accounting principles that

and methods of applying these principles adopted by enterprises adopted by enterprises in preparation and presentation of financial statements	prescribing minimum structure and content of financial statements. In addition, a statement showing changes in equity is also to be presented as a part of financial statements	are judged by the management of the enterprise to be the most appropriate in the circumstance to present fairly financial position, and result of operations in accordance with GAAP and are accordingly adopted for preparing financial statements.
Choice of appropriate accounting policies calls for considerable judgment by the management of the enterprise	Require specific disclosure for departure from IFRS, critical judgment and estimates made by management in applying accounting policies.	Unusual or innovative applications of generally accepted accounting principles are additionally to be disclosed
True and fair vies, going concern, consistency, accrual, prudence, materiality and substance over form are highlighted.	No item should be disclosed as extraordinary item.	

"Again these qualitative differences may be removed if a single set of internationally accepted standards can be used for all cross boarder listed financial statements. These differences may be reduced it the recog" <ml professional accounting to dies of the world arrange a happy marriage between the national and international accounting standards.

ADVANTAGES OF ACCOUNTING STANDARDS – THE SETTING OF ACCOUNTING STANDARDS HAS THE FOLLOWING ADVANTAGES:-

- Standards reduce to a reasonable extent or eliminate altogether confusing variation in the accounting treatments used to prepare the financial statements.
- There are certain area where important information are not required by law to be disclosed, standards may call for disclosure beyond that required by law.
- It facilitates comparison of financial statements of different companies situated at different places.

The disadvantages of setting accounting standards are:**-**

- There may be a trend towards rigidity and away from flexibility in applying accounting standards.
- Differences in accounting standards are bound to be because of differences in the traditions and legal system from one country to another.
- Accounting standards cannot override the law. The standards at required to be framed within the ambit of prevailing statute even though it is not an acceptable standard.
- The choice between better alternative Accounting treatments in a particular situation is eliminated.

CONCLUSION:

India is slowly catering the arena of accounting standards. But the Progress of formulation of accounting standards has been very slow compared with the developments of international levdis. Bringing about harmonization in accounting practices among the countries throughout the world is indeed a very formidable task. The vision of a harmonized accounting world may inspire many minds but it practical field it is very hard to go about embracing a situation where accounting principles and procedure are perfectly harmonized among countries throughout the world.

The development of harmonized accounting rule and a uniformity of approach among the countries towards education and training of professional accountants should accompany principles, further more the harmonization of accounting rules and principles among untrics should also he accompanied with inter country harmonization in auditing principles and standards. I larmoni/ulion initiatives are now working much more effectively them ever before. Many of the initial hardies have been overcome and much progress towards hurmoni/ing accounting principles and procedures among countries has been achieved. Differences are still there but they are narrowing. It is expected that pace of progress in the shere of harmonization will accelerate further in the coming years.

Source: Comparative Analysis of Safa Countries Accounting, Standard Setting Process

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