Knowledge Consortium of Gujarat
Department of Higher Education, Government of Gujarat
JOURNAL OF COMMERCE AND MANAGEMENT
ISSN : 2279-025X

Year-1 | Issue-6 | Continuous Issue-6 | May - June 2013

Indian Accounting Standard
-The paradigm shift in the economic environment in India

Abstract ::

The paradigm shift in the economic environment in India during last few years has led to Increasing attention being devoted to accounting standards as a means towards ensuring potent and transparent financial reporting by corporate. Further, cross-border rising of huge amount of capital has also generated considerable interest in the generally accepted accounting principles in advanced countries such as USA. Initiatives taken by International Organisation Securities Commission (IOSCO) towards propagating International Accounting Standards(IASs)/ International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB), as the uniform language of business to protect the interests of international investors have brought into focus the IASs/ IFRSs.

The Institute of Chartered Accountants of India, being a premier accounting body in the country, took upon itself the leadership role by establishing Accounting Standards Board, more than twenty five years ago, to fall in line with the international and national expectations. Today, accounting standards in India have come a long way. Presented hereinafter are some salient features of the accounting standard-setting endeavours in India.

Key Words:-Accounting standard, IFRS, compliance, NACAS, Stock Exchanges

Introduction ::

Harmonisation of Accounting Standard

Accounting Standards are formulated with a view to harmonise different accounting policies and practices in use in a country. The objective of Accounting Standards is, therefore, to reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises with a view to provide meaningful information to various users of financial statements to enable them to make informed economic decisions. The Companies Act, 1956, as well as many other statutes in India requires that the financial statements of an enterprise should give a true and fair view of its financial position and working results. This requirement is implicit even in the absence of a specific statutory provision to this effect. The Accounting Standards are issued with a view to describe the accounting principles and the methods of applying these principles in the preparation and presentation of financial statements so that they give a true and fair view. The Accounting Standards not only prescribe appropriate accounting treatment of complex business transactions but also foster greater transparency and market discipline. Accounting Standards also helps the regulatory agencies in benchmarking the accounting accuracy.

International Harmonisation of Accounting Standards

Recognising the need for international harmonisation of accounting standards, in 1973, the International Accounting Standards Committee (IASC) was established. It may be mentioned here that the IASC has been reconstituted as the International Accounting Standards Board (IASB). The objectives of IASC included promotion of the International Accounting Standards for worldwide acceptance and observance so that the accounting standards in different countries are harmonised. In recent years, need for international harmonisation of Accounting Standards followed in different countries has grown considerably as the cross-border transfers of capital are becoming increasingly common.

Accounting Standards-setting in India

The Institute of Chartered Accountants of India (ICAI) being a member body of the IASC, constituted the Accounting Standards Board (ASB) on 21st April, 1977, with a view to harmonise the diverse accounting policies and practices in use in India. After the avowed adoption of liberalisation and globalisation as the corner stones of Indian economic policies in early '90s, and the growing concern about the need of effective corporate governance of late, the Accounting Standards have increasingly assumed importance.

While formulating accounting standards, the ASB takes into consideration the applicable laws, customs, usages and business environment prevailing in the country. The ASB also gives due consideration to International Financial Reporting Standards (IFRSs)/ International Accounting Standards (IASs) issued by IASB and tries to integrate them, to the extent possible, in the light of conditions and practices prevailing in India.

Composition of the Accounting Standards Board

The composition of the ASB is broad-based with a view to ensuring participation of all interest groups in the standard-setting process. These interest-groups include industry, representatives of various departments of government and regulatory authorities, financial institutions and academic and professional bodies. Industry is represented on the ASB by their apex level associations, viz., Associated Chambers of Commerce & Industry (ASSOCHAM), Confederation of Indian Industries (CII) and Federation of Indian Chambers of Commerce and Industry (FICCI). As regards government departments and regulatory authorities, Reserve Bank of India, Ministry of Company Affairs, Comptroller & Auditor General of India, Controller General of Accounts and Central Board of Excise and Customs are represented on the ASB. Besides these interest-groups, representatives of academic and professional institutions such as Universities, Indian Institutes of Management, Institute of Cost and Works Accountants of India and Institute of Company Secretaries of India are also represented on the ASB. Apart from these interest groups, certain elected members of the Central Council of ICAI are also on the ASB.

The Accounting Standards-setting Process

The accounting standard setting, by its very nature, involves reaching an optimal balance of the requirements of financial information for various interest-groups having a stake in financial reporting. With a view to reach consensus, to the extent possible, as to the requirements of the relevant interest-groups and thereby bringing about general acceptance of the Accounting Standards among such groups, considerable research, consultations and discussions with the representatives of the relevant interest-groups at different stages of standard formulation becomes necessary. The standard-setting procedure of the ASB, as briefly outlined below, is designed in such a way so as to ensure such consultation and discussions:

1. Identification of the broad areas by the ASB for formulating the Accounting Standards.
2. Constitution of the study groups by the ASB for preparing the preliminary drafts of the proposed Accounting Standards.
3. Consideration of the preliminary draft prepared by the study group by the ASB and revision, if any, of the draft on the basis of deliberations at the ASB.
4. Circulation of the draft, so revised, among the Council members of the ICAI and 12 specified outside bodies such as Standing Conference of Public Enterprises (SCOPE), Indian Banks 'Association, Confederation of Indian Industry (CII), Securities and Exchange Board of India3(SEBI), Comptroller and Auditor General of India (C& AG), and Department of Company Affairs, for comments.
5. Meeting with the representatives of specified outside bodies to ascertain their views on the draft of the proposed Accounting Standard.
6. Finalisation of the Exposure Draft of the proposed Accounting Standard on the basis of comments received and discussion with the representatives of specified outside bodies.
7. Issuance of the Exposure Draft inviting public comments.
8. Consideration of the comments received on the Exposure Draft and finalisation of the draft Accounting Standard by the ASB for submission to the Council of the ICAI for its consideration and approval for issuance.

9. Consideration of the draft Accounting Standard by the Council of the Institute, and if found necessary, modification of the draft in consultation with the ASB.
10. The Accounting Standard, so finalised, is issued under the authority of the Council.

Present status of Accounting Standards in India in harmonisation with the International Accounting Standards

As indicated earlier, Accounting Standards are formulated on the basis of the International Financial Reporting Standards (IFRSs)/ International Accounting Standards (IASs) issued by theism. Of the 41 IASs issued so far, 29 are at present in force, the remaining standards have been withdrawn. Apart from this, 8 IFRSs have also been issued by the IASB. Corresponding tithe IASs/IFRSs, so far, 30 Indian Accounting Standards on the following subjects have been Issued:

AS 1 Disclosure of Accounting Policies
AS 2 Valuation of Inventories
AS 3 Cash Flow Statements
AS 4 Contingencies and Events Occurring after the Balance Sheet Date
AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS 6 Depreciation Accounting
AS 7 Construction Contracts
AS 8 Accounting for Research and Development (Withdrawn pursuant to AS 26 becoming mandatory)
AS 9 Revenue Recognition
AS 10 Accounting for Fixed Assets
AS 11 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 Employee Benefits
AS 16 Borrowing Costs
AS 17 Segment Reporting
AS 18 Related Party Disclosures
AS 19 Leases
AS 20 Earnings per Share
AS 21 Consolidated Financial Statements
AS 22 Accounting for Taxes on Income
AS 23 Accounting for Investments in Associates in Consolidated Financial Statements
AS 24 Discontinuing Operations
AS 25 Interim Financial Reporting
AS 26 Intangible Assets
AS 27 Financial Reporting of Interests in Joint Ventures
AS 28 Impairment of Assets
AS 29 Provisions, Contingent Liabilities and Contingent Assets
AS 30 Financial Instruments: Recognition and Measurement
AS 31 Financial Instruments: Presentation

Compliance with Accounting Standards

Accounting Standards issued by the ICAI have legal recognition through the Companies Act,1956, whereby every company is required to comply with the Accounting Standards and the statutory auditors of every company are required to report whether the Accounting Standards have been complied with or not. Also, the Insurance Regulatory and Development Authority (IRDA) (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulations, 2000 requires insurance companies to follow the Accounting Standards issued byte ICAI. The Securities and Exchange Board of India (SEBI) and the Reserve Bank of India also require compliance with the Accounting Standards issued by the ICAI from time to time. Section 211 of the Companies Act, 1956, deals with the form and contents of balance sheet and profit and loss account. The Companies (Amendment) Act, 1999 has inserted new sub-sections3A, 3B and 3C to Section 211, with a view to ensure that the financial statements are prepared in accordance with the Accounting Standards. The new sub-sections as inserted are reproduced below:

Section 211 (3A): 'Every profit and loss account and balance sheet of the company shall comply with the accounting standards'
Section 211 (3B): ' Where the profit and loss account and the balance sheet of the company do not comply with the accounting standards, such companies shall disclose in its profit and loss account and balance sheet, the following, namely:-
a) The deviation from the accounting standards;
b) The reasons for such deviation; and
c) The financial effect, if any, arising due to such deviation'
Section 211 (3C): 'For the purposes of this section, the expression "accounting standards "means the standards of accounting recommended by the Institute of Chartered Accountants of India, constituted under the Chartered Accountants Act, 1949 (38 of 1949), as may be prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards established under sub- section (1) of section 210A:
Provided that the standards of accounting specified by the Institute of Chartered Accountants of India shall be deemed to be the Accounting Standards until the accounting standards are prescribed by the Central Government under this sub-section.'

It may also be mentioned that the National Advisory Committee on Accounting Standards (NACAS) has been constituted under section 210A as referred to under section 211 (3C) to advise the Central Government on formulation and lying down of the accounting standards for adoption by companies or class of companies. It is of significance to note that on the recommendation of NACAS, the Ministry of Company Affairs, has issued a Notification dated 7thDecember, 2006, whereby it has prescribed Accounting Standards 1 to 7 and 9 to 29, as recommended by the Institute of Chartered Accountants of India, which are included in the said Notification. As per the Notification, the Accounting Standards shall come into effect in respect of accounting periods commencing on or after the publication of these Accounting Standards, i.e., 7th December, 2006. Specific relaxations are given to particular kinds of companies, termed as Small and Medium Sized Companies, depending upon their size and nature. The above legal provisions have cast a duty upon the management to prepare the financial statements in accordance with the accounting standards. The corresponding provision to report on the compliance of accounting standards has been inserted under section 227 of the Companies Act, 1956, thereby casting a duty upon the auditor of the company to report on such compliance. A new clause (d) under sub-section 3 of Section 227 of the Companies Act, 1956 is read as under:

'whether, in his opinion, the profit and loss account and balance sheet comply with the accounting standards referred to in sub-section (3C) of section 211'
As far as the reporting of compliance with the Accounting Standards by the management is concerned, clause (I) under the new sub-section 2AA of Section 217 of the Companies Act,1956, (inserted by the Companies Amendment Act, 2000) prescribes that the Board's report should include a Directors' Responsibility Statement indicating therein that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures.

Conclusion ::

The entities in emerging economics are increasingly assessing the global market to fulfill their capital needs by getting their securities listed on stock exchanges outside their country. There have been various trends but the most important change is convergence around IFRS. At present, the ABC of the ICAI formulates accounting standards based on IFRS; however, these standards remain sensitive to local conditions, including the legal and economic environment. Now a day, it is necessary to adopt IFRS for the gain to each and every country of the world. Despite the challenges being faced by them, by adopting IFRS these countries seek to enter global capital markets and participate in the benefits globalization.

REFERENCES :

Books:

1. International accounting standards: a practical guide, Second Edition, Henie van Greuning, World Bank – 2005

2. ACCOUNTING STANDARDS & IFRS, Publisher: Bharat Law House Pvt. Ltd., 3rd Edition, July 2011, Kamal Garg.
3. International financial reporting standards IASB - 2009

Website and Final Reports:

1. http://ifrs.icai.org
2. http://www.livemint.com/2011/02/25220752/MCA-notifies-accounting-norms.html
3. http://www.indianexpress.com/news/India-Inc-has-its-way--IFRS-put-off/755079/
4. http://pib.nic.in/newsite/erelease.aspx?relid=70248
5. http://www.moneycontrol.com/news/the-firm/jamil-khatris-ifrs-diary-part-10_526759.html
6. http://www.rhapsody-services.com/blog/ifrs/ifrs-in-india-%E2%80%93-the-journey-so-far

****

Dr. G. P. Japee
Asst. Prof. S.M.Patel Institute of Commerce
Law Garden, Ahmedabad - 380006

Dr. B. A. Lakhani
HOD, Commerce,
Shri K.K.Shastri Government Commerce College
Maninagar, Ahmedabad – 380008