International Journal of Advance and Applied Research (IJAAR) **ISSN – 2347-7075**
Peer Reviewed **Bi-Monthly** **Vol. 1 No.1**
Sept – Oct2013

Commerce	INDIAN AND INTERNATIONAL ACCOUNTING

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ABSTRACT

The structure of the accounting profession as well as the way in which society views accountants and auditors often have a substantial impact on the ability of auditors to either influence or govern the conduct of corporations as well as the reporting methods that are utilized by those particular organizations. In this setting, it is essential to give some thought to the different degrees of autonomy and power that are held by auditors and the companies that are being investigated by auditors. The public's opinion of auditors, whether they are perceived as influential and unbiased experts or as being persuaded by the firms they audit, has an impact on the credibility of financial reports. This impression may either be that auditors are influenced by the companies they audit or that auditors are swayed by the companies they audit. It's possible that the accounting community won't be able to agree on what sorts of procedures are acceptable, but it's also possible that they will. Developing accounting standards is often the responsibility of the government in nations that use the code law system as their primary legal framework. However, even in this specific environment, a person's line of work may be able to make a difference in how they are treated. It is conceivable that it may serve in a consultative capacity in the government and provide ideas at various stages of the regulatory process. In the absence of regulations that are obligatory, it is possible that it will give instructions that are optional. It is authorized to issue proclamations that either shed light on or provide further context for previously established legal precedent. In regard to this matter, the professional community in France may serve as an example that is informative to look at. In jurisdictions that use the common law system, the government will commonly hand up the authority to regulate accounting to an independent body, such as the Accounting Standards Board (ASB), which is in charge of creating accounting standards. This is normal practice in nations that use the system of common law.

KEY WORDS: Company Act, Indian Accounting System, International Accounting System, Jurisdictions, Accounting Standards.

INTRODUCTION

Accounting principles and practices have spread all across the world in the years since the invention of double entry. The way in which the public views accountants and auditors will have an effect on the auditors' ability to influence or govern the conduct of companies and the reporting systems those companies use. In this context, it is important to consider the relative levels of freedom and authority possessed by auditors and the firms they investigate. The public's perception of auditors, whether they are seen as influential and impartial professionals or as being swayed by the companies they audit, has an impact on the credibility of financial reports. The accounting community might or might not reach a consensus on what kinds of practices are considered appropriate. In countries that follow the code law system, the government will frequently be the one to develop accounting standards. Nevertheless, even in this particular setting, a person's line of work may make a difference. It is possible that it might have a consultative function in government and give proposals throughout the regulatory process. It is possible that it will issue instructions that are voluntary in the absence of regulations that are binding. It has the authority to issue proclamations that either explain or expand upon previously established legal precedent. Regarding this topic, the French professional community might serve as an instructive example. In countries that follow the system of common law, the government will frequently transfer the responsibility of regulating accounting to an independent organization, such as the "Accounting Standards Board (ASB)", which is in charge of developing standards. From the earliest days of double entry, the accounting rules and processes that best meet your needs have been exported. This practice has continued right up until now. The nations of Eastern Europe serve as a model for the current pattern of accounting imports as a prominent case study. Countries that, following the fall of communism, are attempting to develop relations with the European Union, such as Hungary, are finding that they need to completely restructure their accounting systems in order to do so. In a similar vein, companies have the option to use accounting processes that have been defined by either the "International Accounting Standards Committee (IASC)" or another body.

As a result of this, we are able to draw the conclusion that the accounting policy of no nation exists independently of the fundamental accounting system or organizational structure of that nation. The aforementioned factors have a significant influence on the accounting policy of a country, which in turn will decide how the system is institutionalized. When making broad generalizations, there is a significant possibility that one will be incorrect because there will always be countries and individuals that do not conform to the norm. Insofar as this aspect is taken into consideration, it will be possible to arrive at generalizations regarding the similarities shared by different nations. There is no direct correlation between the bookkeeping approach used by a particular business and the one taken by any other organization. Every one of the aforementioned aspects is very important. Interactions between known components are also an extremely important factor. There is a two-way street of influence between the institutions of a nation and foreign influences on accounting and accountants, which may take on a variety of forms. This impact can take many different shapes. Knowledge with the various factors that can have an effect on an accounting system makes it easier to comprehend the present-day institutional structure that exists in India for the purpose of the formation of accounting standards. These characteristics explain why a specific style of organizational design is so prevalent in the established order, as well as why some attitudes that are popular in the West are not present.

INDIA'S ACCOUNTING STANDARDS SETTING PROCESS

In India, the accounting sector holds complete power over the process of standard setting. According to the information provided in the introduction to the statements of Accounting Standards, the "Institute of Chartered Accountants of India (ICAI)" founded the "Accounting Standards Board (ASB)" in April 1977 with the purpose of establishing accounting standards in India. The "Accounting Standards Board (ASB)" is in charge of establishing proposed accounting standards for the "ICAI Council" to adopt. These standards must be approved by the "ASB". When it comes to the publishing of the standards, the "ICAI council" has the last word. In India, the norms do not have the same legal weight as actual laws. The presentation of general purpose financial accounts that are made available to the public by commercial, industrial, or business firms that may be designated by the ICAI is done in line with the standards that have been established by the "ICAI". The "financial statements" that are published for use by "shareholders/members, creditors, employees, and the general public" are referred to as "general purpose financial statements", & they include a "balance sheet, a profit and loss statement, as well as additional statements & explanatory notes" that make part of them. "Financial statements & adequate disclosure" are the responsibility of the company's management; the auditor's function is restricted to establishing an opinion and reporting it. The auditor's job is limited to making an opinion and reporting it. Neither the printed materials of the "ICAI" nor the website of the organization give appropriate information on the organizational structure of the "Accounting Standards Board (ASB)" or the procedure for developing accounting standards in the country. Neither of these can be found. This simply serves to illustrate how opaque India's whole standard-setting process is.

HOW FINANCIAL CONTROL OVERSISTES ARE ORGANIZED?

According to "ICAI", the "ASB" was established so that "view points of all the parties having an interest in financial reporting" may be represented. This was done in order to ensure that all relevant perspectives are taken into account. Both the Council itself (from which one member is selected to serve as Chairman) and the connected organizations are responsible for the nomination process for new members of the Council. The members that were appointed will each serve for a period of one year. The "ASB" will normally get together for formal business at least twice, and sometimes even three times, every year.

HOW THE REQUIREMENTS WERE ESTABLISHED IN INDIA?

There is a considerable correlation between the institutional processes that have been built for establishing, approving, and publishing accounting standards and the quality of the accounting standards that are generated. According to the introduction of the declarations of "Accounting Standards", it is anticipated that the "ASB" will be assisted by the research group, which is created to think about particular themes and hold interactions with representatives from the "government, PSU, industry, and other organizations". On the basis of the work done by the research group and the debate that was mentioned before, an "Exposure Draft (ED)" of the proposed standard is going to be crafted and distributed so that institute members and the general public may provide their input on it. In addition, before the standard is finished and the final document is presented to the "Council of ICAL", it is recommended that the opinions gathered in this manner be taken into consideration. It won't be released until the "ICAI Council" has had a chance to read over the final draft and make any required adjustments. However, if it so chooses, the Council has the ability to propose that the Board make changes to the statement.

Following deliberation, the Board then submits its findings and recommendations back to the Council, which subsequently releases the statement as a "Standard" under the power granted to it by the Council. The Council cannot outright reject an "ASB proposal"; nevertheless, it is feasible for the Council to make adjustments to an "ASB" plan after discussing it with the board and considering the plan's merits. However, it is important to note that the Council has the authority to abolish an already established standard without first consulting the "ASB". The fact that the minutes of the "ASB" meetings are not made public is by far the most problematic aspect of the entire procedure. This is counter to the intention of the proposed amendments to solicit open and inclusive opinion from the public. India's method of accounting standard-setting is lacking in various aspects when measured against the practices of other countries' standard-setting organizations, which will be discussed in subsequent chapters of this book. The Indian system gives the impression of being straightforward, naive, and carefree. It is difficult, if not impossible, to expect users of accounting standards to be open in corporate reporting if the processes used in producing accounting standards lack or appear to lack openness and impartiality. This is because it is difficult to determine what constitutes a fair accounting standard if it is not transparent.

INDIA'S INSTITUTIONAL FRAMEWORK FOR ESTABLISHING ACCOUNTING PRINCIPLES

"The Companies Act of 1956", as amended, the pronouncements of the "Institute of Chartered Accountants of India", the recommendations released by the "Securities & Exchange Board of India (SEBI)", and the circulars issued by the "Department of Company Affairs" all control corporate disclosure in India.

THE COMPANIES ACT 1956

"The Indian Companies Act of 1882" was the first piece of legislation to officially recognize the need of a balance sheet. It is clear that the effect of "British colonialism" is shown in the fact that this Act was modelled after the "British Companies Act". The Act required that a balance sheet be prepared and audited in accordance with "Section 74", but left the compilation of a "profit & loss statement, the distribution of annual accounts, and the contents of the auditor's report and the directors' report to be governed by separate, discretionary rules (Sections 78–94)". "Publicly available financial statements" were addressed in greater depth by "the Companies Act of 1913". Instructions on how to compile a "P&L and balance statement were laid forth in Articles 107–108 of Table A". A required balance sheet format was provided in "Schedule III, Form F". There were major shifts brought about by "the Companies (Amendment) Act of 1936". "The directors' report on accounts is mandatory per Section 131", which also elevated the "profit & loss statement" to the same level as the balance sheet. In 1952, "the Company Law Committee", sometimes known as the "Bhabha Committee", released a report that would change the course of "financial reporting legislation in India" forever. The Committee suggested that the "Annual Reports" provide sufficient information to satisfy the needs of the shareholders without releasing any material that might be harmful to the company's interests. "The Companies Act of 1956" was enacted after these suggestions were made. "Section 211 of the Act", for example, "mandated the creation of balance sheets and profit and loss accounts in the form set down in part I and part II of schedule VI of the Act", considerably expanding the scope of "corporate disclosure". Similar laws pertaining to "corporate disclosure" may be found in "Sections 210, 212, 216, 217, 227(IA), 227(2), 227(3), 227(4A), 619, and 641". There have been periodic revisions to "the Companies Act 1956" since its inception that has increased the amount of information that must be included in annual reports. In 1996, a committee was formed to rewrite the "company legislation" and release it for public comment. Rewriting the "Companies Act" with today's more flexible, dynamic, and competitive business climate in mind was the primary motivation. "The Companies Bill of 1997" is based on the proposals made by the working group.

INDIAN ACCOUNTING STANDARDS V/S INTERNATIONAL ACCOUNTING STANDARDS

Accounting rules, which not only apply to the past but also to predictions into the future, are a major factor in determining the quality of the disclosure that is provided. Economists who believe in the efficiency of markets argue that investors and other parties may safely overlook earlier accounting data since the market will already have priced in the relevance of the data before it is publicly published. In other words, the market will have already priced in the significance of the data. However, information such as this is gathered over time, as and when the accounting information is disclosed in chunks. For instance, many analysts make projections about corporate profitability based on sales volume data released by the firm to the market or through industry groups. This information is acquired over time. Accounting data may also be used to investigate the longer-term consequences that cyclical business or industry life cycles have on an organization and how well it is equipped to deal with the repercussions of such cyclical tendencies. Accounting information must be supplied on a consistent basis; failure to do so may result in volatility, as it is hard for management to balance out the positive and negative news over the course of the long term. Businesses will often experience the cumulative impact at some point in time during their operations. In light of this context, the applicability of accounting standards is made abundantly evident. When there are standards in place, one's capacity to manage an item in an arbitrary manner is diminished.

Even though some accountants would raise an eyebrow at such a strict approach to accounting data, the majority of agencies that establish standards provide exceptions for exceptional scenarios in order to guarantee that even the most peculiar of situations are dealt with in the appropriate manner. Users' worries regarding the accuracy of financial reports can be alleviated to some degree by adhering to accounting standards, which restrict the amount of administrative freedom that can be used to exercise discretion in accounting treatment. Accounting standards establish both the type of information that should be revealed to investors and other stakeholders, as well as the type of information that should be useful to those stakeholders. Whenever there is a need for additional information, new accounting standards that are more explicit are necessary to be implemented. For instance, if the company is relatively straightforward and just produces standardized items, it may be possible to satisfy the expectations of the stakeholders by making use of norms that have already been established. When a firm expands and diversifies its operations, it needs to keep track of more data. Because of this, new standards must be developed, such as the standard on segment reporting and the standard on consolidated financial statements.

When companies start utilizing derivatives on a large scale, they will, like other market participants, discover a requirement for standardized derivative transactions. When stock options are widely utilized by firms, users of financial statements not only require a disclosure of existing stock options, but they also need a realistic evaluation of the influence that stock options have on the financial statements. This is necessary when stock options are widely employed by corporations. If such data are not made public and are instead shared privately with selected investors (owner-managers), then there will be an information gap between the various groups of shareholders that control the company. The goal of an accounting standard is to provide guidance to businesses on the kind of information that may be revealed to the general public without affecting their capacity to compete successfully in their respective markets. As a consequence of this, accounting standards are now responsible for choosing the types of information that must be revealed, taking over this function formerly performed by regulatory bodies. As we have seen in the preceding sections, accounting standards are policy guidelines that are produced by a recognized professional accountancy organization. These guidelines address a wide range of issues that are related to the identification, evaluation, classification, presentation, and disclosure of financial transactions and occurrences. The creation of a standardized set of accounting policies, valuation norms, and disclosure requirements is the objective of accounting standards. These standards are intended to discourage the use of accounting policies that are not in line with generally accepted accounting policies and to allow for more meaningful comparisons between the financial statements of different companies.

CONCLUSION

There are a total of twenty-eight distinct accounting standards that have been produced by the “Institute of Chartered Accountants of India”. Twelve of these guidelines have been made available to the general public during the course of the most recent several years. It is clear how much the “Indian accounting standards” need to be harmonized with the “international accounting standards” in order to be considered compliant with “international accounting standards” when they are compared to the forty-one “International Accounting Standards”, of which thirty-four are already in effect, or the more than 140 statements issued by the “Financial Accounting Standards Board of the United States”. When this is done, it becomes apparent how much the “Indian accounting standards” need to be harmonized with the “international accounting standards”. The publishing of current “accounting standards”, such as those “impacting consolidation, segment reporting, earnings per share, related party disclosure, and deferred tax accounting”, is likely to result in alterations to the system that is used for “reporting financial information” in India. These modifications may be necessary in order to accommodate the requirements of the new “accounting standards”. It is anticipated that these adjustments will be made in the not-too-distant future. They represent a step ahead in the direction of conformance with the “financial reporting" requirements of other countries and constitute a step advance in that regard. You are free to examine the similarities and differences between the "Indian Accounting Standards & the International Financial Reporting Standards", which are considered to be the standards' counterparts.

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