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A Critical Review Of The Benefits of International Financial Reporting Standards (IFRS) For Indian Companies

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Introduction:

The idea of accountancy in its systemic form can be traced out from the great ancient Indian literature in economics i.e ‘Arthashastra” written by Kautilya. At the same time similar references can be traced out from writings of Confucius in China. The last decade of 15th century was an important period in which the Renaissance gave emphasis to trade and commerce in Italy and the principles of double entry were evolved and published in 1494 at Venice in Italy by Luca Pacialo. This system of accounting was capable of recording all types of transactions. Hence, the scope of audit was automatically increased.

Establishment of Professional Institutions: The Institute of Chartered Accountants was set up in England on May 11, 1880 with the basic purpose of preparing auditors.In January 1932, the British Association of Accountants and Auditors was established. A person passing the examination of this institute was recognised as competent to audit the accounts in India.

Prescription of Qualifications of Auditor: The history of auditing in India dates back to 1st April, 1914 when the companies Act 1913 was brought into force. The Act prescribed qualifications for auditors, Prior to 1913 no such qualifications were prescribed.

At the initial stage, Govt. of Bombay was to arrange for conducting the courses of study in this direction. The Bombay Govt conducted the Govt. Diploma in Accountancy (GDA). The Central Govt. established an Indian Accountancy Board under the Auditors’ Certificate Rules, 1932. Under these rules Registered Accountants (R.A.) were prepared to work as qualified auditors. With the growth of accountancy profession, the chartered Accountants Act was formed. Now the person to become a qualified auditor has to pass the examination of the institute.

Passing of companies Act: Thereafter the companies Act was passed. The Act provided for audit of accounts of companies. The act laid down about the qualifications, appointment, duties and responsibilities of an auditor.

MAOCARO: The manufacturing and other companies (Auditor’s Report) order 1975 came into force from 1st Jan.1976. the order provided for certain responsibilities of auditors. This order has been replaced by MAOCARO 1988, which specifies the matters on which the auditors are required to report. The companies Act passed in 1956 provides for appointment of auditors under section 233 B the central Government is empowered to order compulsory cost audit in the case of specified companies. In 1985, the RBI issued a circular to the commercial banks advising them to ask their borrowers to get their accounts audited.

Computerised Audit: This is the latest development in the field of auditing. Today Meaning of Accounting Standards. In simple words accounting standards may be defined as uniform accounting measurements and practices within a country.

Kohler has defined accounting standards as "a mode of conduct, imposed by customs, law or professional body for the benefit of public accountants and accountants generally."

Thus, accounting standards are the uniform rule for financial reporting to ensure consistency and comparability. The purpose of accounting standards is to facilitate the users to understand the importance of financial statements in the correct perspective and also to enable them to use such financial statements for right.

Need of Accounting Standards:

The application of accounting standards ensures uniformity in the preparation and presentation of financial statements. The various groups have different information needs. Therefore, conflicts may arise between external groups. Accounting standards serve as a working basis of resolving potential conflicts, if any, of interest between various external groups. The accounting standards aim at ensuring that financial statements have been prepared according to specified standards, i.e. consistent and continued use of the same conventions and same rules over a period of time.

Formulation of proper accounting standards is a vital step in developing the norms of accounting policies by way of guidelines. Preparation of financial statements has to conform to the prescribed standards so as to bring about uniformity in financial reporting Accounting standards provide an important and useful system to resolve potential financial conflicts of interest between the various external group.

Classification of Accounting Standards as per subject matter

On the basis of their subject matter, Benston has grouped accounting standards as under:

I. Disclosure Standards: Disclosure standards are the most important standards. These are the uniform rules requiring an explicit disclosure. These standards are very useful to the various external groups because they get all material facts for their decision making purposes. In essence, disclosure standards ensure that all information that anyone could desire to have is to be included in the financial statements of the business.

II. Presentation Standards: Presentation standards are the uniform rules specifying the form and type of accounting information to be presented in the accounts. Presentation standards facilitate the users of financial statements to make proper evaluation and decision making. e.g., such standards may specify that a fund flow statement be presented or various items be presented in a particular but meaningful order.

III. Content Standards: Content standards are the uniform rules specifying the information to be published in financial statements. According to Benston, content standards have three aspect; disclosure content, specific content and conceptual standards.

Classification of Accounting Standards as per method of preparation

On the basis of method of preparation and enforcement Benston has grouped accounting standards as follows:

I. Voluntary Compliance Standards: Such standards are the best approaches and are generally accepted by the companies.

II. Privately Set Standards: There are many professional bodies like **ASB Or FASB** which formulate, from time to time, the accounting standards.

III. Governmental Standards: Various government laws and government agencies also formulate accounting practices for companies and certain industries. Such standards are to be followed in all the cases.

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Development of Accounting Standards

The American Association of Public Accountants for the first time in 1884 recommended the order of presentation of assets on the basis of realisation, emphasizing the information needs of creditors. Later, in 1910, another committee of the Association was specially appointed to define the various accounting terms in order to ensure uniformity to their meanings.

The American Accounting Association (AAA) published accounting standards in 1936 and 1948. Later the AAA revised its standards in 1957 and 1965. In 1973, American Principles Board published accounting standards under the title of "Opinions and Statements". On the basis of these opinions Financial Accounting Standards Board (FASB) of the American Institute of Certified Public Accountants (AICPA) also developed some accounting standards in 1973. These standards enjoyed widespread support and acceptance.

Following the AICPA standards, the Institute of Chartered Accountants in England and Wales also contributed to the development of accounting standards. So far the Accounting Standards Committee has issued as many as 23 statements. With the growth of Multi-national Corporations over the years, the need for developing international accounting standards was also felt. As a result, the International Accounting Standards Committee (AISC) came into existence in 1973.

Since then the IASC formulates and issues the international accounting standards. The IASC consists of representatives from the leading professional bodies of UK, USA, Australia, France, Canada etc. International accounting standards have been designed "to formulate and publish, in the public interest standards to be observed in the presentation of audited financial statements and to promote the world wide acceptance and observance."

Indian Accounting Standards:

Accounting Standards Board (ASB) has been set up in India by the Council of the Institute of Chartered Accountants of India, with a view to form Indian Accounting Standards. The Council was setup in April 1977. While formulating the standards, the Board attempts to harmonise the diverse accounting policies and practices in India and also takes into account the applicable laws, customs usages and business environment in the country. The Institute of Chartered Accountants of India is one of the members of the IASC. It has agreed to support the objectives of IASC.

While formulating the Accounting Standards, ASB will give due consideration to standards issued by IASC and try to integrate them to them to the extent possible in the light of the conditions and practices prevailing in India.

The Accounting Standards will be issued under the authority of the Council. ASB has also been shouldering the responsibility of promoting the Accounting Standards and of persuading the concerned parties to adopt them in preparation and presentation of financial statements. ASB will issue Guidance Notes on Accounting Standards and give clarifications on issues arising there from. ASB will also review the Accounting Standards at periodical intervals.

Significance of Accounting Standards

The main object of issuing Accounting Standards is to facilitate uniform preparation and reporting of general purpose of financial statements published annually for the benefits of shareholders, creditors, employees and the public at large. Importantly, these do not apply the standards prepared for the purposes of internal management. In every country including India, the issue of financial statements is governed to a greater or lesser degree by local legislation.

Therefore, the Accounting Standards issued should not be inconsistent with the provision of law. A standard may become inconsistent with law due to subsequent amendments to the law. In such a case, law changes any provision in the standard. The standard has to be amended accordingly to the needs of professional body.

One of the objects of formulating the accounting standards is to determine the extent of disclosures to be made in financial statements and the related auditor's reports. Such disclosure may be by way of appropriate notes explaining the treatment of particular item. Such explanatory notes will be only in the nature of clarification and, therefore, need not be treated as adverse comments on the financial statements.

According to ASB, the standards are intended to apply only to items which are material. Any limitations with regards to the applicability of the specific standards will make clear by the Institute from time to time. In carrying the job of formulation of accounting standards, the intention is to concentrate on basic factors.

However, in future the accounting standards may be revised to attain a greater degree of sophistication.

Thus, accounting standards play an important role. Accounting standards are very useful to the investors and other external groups in accessing the progress and prospects of different countries. Accounting standards also help public accountants in the audit of accounts. It is so because accounting reports prepared in accordance with standards are reliable, uniform and consistent.

Implementation of Accounting Standards

The preparation of financial statements with adequate disclosures as required by the accounting standards, is the task of the management of the enterprise. The auditor's responsibility is to form his opinion and to report on such financial statements. The auditor while discharging his functions has to ensure that the accounting standards are implemented in the presentation of the financial statements covered by the auditor's report. In fact, it is his responsibility to disclose any deviations from such standards so that the users of such statements may be aware of such deviations.

However, in initial years the Institute will give wider publicity among the users and educate members about the utility of accounting standards and needs for compliance with the above disclosure requirements. Once the importance of the standards is realised, steps will be taken to enforce compliance with the accounting standards by insisting the auditors to disclose any deviations from the standards or the non-compliance of such standards.

It is hoped that the observance of the accounting standards by all concerned will improve the quality of presentation of financial statements and will also ensure an increasing degree of uniformity. It will also lead to provision of necessary information for a proper understanding of the financial statements of the business concerns.

Mandatory Accounting Standards

The Council of the Institute of Chartered Accountants of India has so far made the certain accounting standards mandatory. The members of the institute are obliged to ensure that the adopted accounting standards are followed while presenting the financial statements. If there is any departure from these standards. It is their duty to mention it in their audit reports so that the users of financial statements may be aware of such departures.

IFRS: IFRS are global accounting standards used by more than 100 countries in the world. The International Accounting Standards Board (IASB), a private sector body, develops and approves IFRS. The IASB replaced the International Accounting Standards Committee (IASC) in 2001. The IASC issued International Accounting Standards (IAS) from 1973 to 2000. since then IASB has replaced some IAS with new IFRS, adopted IAS or proposed new IFRS on topics for which there was no previous IAS.

IFRS is principle based, lucid and easy to understand and apply. The application of IFRS requires an increased use of fair values for measurement of assets and liabilities. The IFRS was given in June 2003.

For Indian Companies IFRS has become a boon. It is likely to provide the following benefits.

1. **Lower cost of capital:** It will have less cost incurred on audit fees and higher rate of interest. It will also lower the cost of raising the funds.
2. **Better access to International capital markets:** Those Indian companies acquiring big companies outside India require huge capital. Most of the international stock exchanges require accounts prepared as per IFRS. By IFRS Indian companies can get easy access to such sources of finance.
3. **Brand value:** By applying IFRS Indian companies get international recognition and brand value.
4. **Benchmarking:** Indian companies can enjoy better understanding in global market. It can set its own targets and milestones.
5. **No multiple reporting:** Due to common accounting methodology Indian companies need not prepare separate financial statements. The common accounting statements are accepted by all stock exchanges.
6. **True value of acquisitions:** In India true value of acquisitions and mergers is not recorded properly. As per IFRS accounting for net assets is taken in business combinations at its fair value.
7. **New opportunities:** Out of the idea of BPO and KPO India can become 'accountant' for the global market. It will definitely create a large number of opportunities to professionals.

Conclusion:

To conclude, there is a need to bring about uniformity, comparability, transparency and adaptability in financial statements. IFRS has shouldered the responsibility to bring about the real term of 'global village.'

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