



A Comparative Study on Indian and International Accounting Standards

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Abstract: *In current international arena the trade business has got the shape of globalized competitiveness in such a way that rational investors, domestic as well as international normally make their investment decision on the basis of published financial statements, in addition to wide variety of factors. Uniformity of accounting standards, policies and practices is, therefore, imperative necessity of the world for a meaningful inter-firm comparison and proper evaluation in the changing business environment. Keeping in view the significance of uniform accounting standards, policies, procedures and practices, various steps and strategies have been taken by the different accounting bodies during the past more than two and half decades. The proposed paper elucidates different issues pertaining to the international accounting standards and Indian accounting standards, their need, organizational setup, deficiencies, the reasons for gaps between IAS and AS and suggest the improve the necessary measures with valuable recommendations for ensuring uniform accounting standard and their practices, so that accounting standards may internationally acceptable as “global accounting standard.”*

Keywords: AS, IAS, Accounting Standards, Global Accounting Standard.

I. INTRODUCTION

It is a universal fact that “accounting is the language of business.” It speaks about state of business i.e. Whether the business is operating well or not, dose it contribute to the net worth, how it stands in terms of its assets and liabilities est. In the globalize society of the world, there are many stake-holders to a business, viz, its owner, potential inventors both domestics and foreign, financial analysts, legal experts, government, general public, so on and so forth.

In the globalize world trading, the job of standard setting assumes considerable significance for harmonizing the diverse policies and practices adopted by different enterprise and ensuring consistency in the reported information of an enterprise from year to year.

With increasing cross-border capital flows caused by globalization process underway in many countries of the world a need for commonly acceptable uniform accounting standards is urgently felt of course, against this backdrop, the international accounting standards (IAS), and Indian accounting standard (AS) of the institute of chartered accounting of India (ICAI) have been formulated uniform standards for ensuring fairness, probity, consistency and transparency in business operation and accounting exercises.

II. NEED FOR UNIFORM AND ORGANIZATIONAL SET-UP FOR ACCOUNTING STANDARDS

As such, every country has its own accounting rules know as “General Accepted Accounting Principles (GAAP). Due to this reason differences do exist between the generally accepted accounting principles of two countries. There are various reasons for differences in accounting practices are:

- (1) Different accounting rules of measurements.
- (2) Different interpretation of similar rules.
- (3) Varying degrees of financial statement disclosures.

Elimination of such diversity in accounting practices is necessary through the formulation of uniform and global accounting standards. David Solmons, put forth some different arguments about the courses of differences and stress on the urgent need of uniform accounting standards

The International Accounting Standards Committee (IASC) was formed in June 1973 through an agreement made by professional accounting bodies of Australia, UK, Ireland and the United States since 1983. Now there are more than 118 member’s bodies in IASC all over the world. In the April-1977, the ICAI has constituted the Accounting Standards Board (ASB) with a view to harmonizing the diverse accounting policies and practices prevalent in India by formulating accounting standards.

According to the IASC, an International Accounting Standard (IAS) is a brief and simple statement dealing with a particular aspect of financial statement. IAS specified that how to measure certain items in the financial statement and what minimum information should be disclosed. IAS is structured to cater to a wide spectrum of countries from both developed and developing world.



In a developing nation like India, the ASB constituted by the ICAI shoulders the responsibility of formulating the Accounting Standards (AS) for business and industry.

Accounting standards in India are being formulated after IAS are prescribed and made applicable to countries. ASB has so far formulated and issued 15 accounting standards and IASC has issued 33 international accounting standards respectively and further IASC has made a number of revisions and improvements in the IAS under the “compatibility and improvement project”.

III. LIMITATIONS IN AS

There are some limitations and inadequacy prevailing in the accounting standards in our country.

AS-1: Disclosure of accounting policies

The Indian accounting standard and international accounting standard do not set conditions when an entity can no longer be considered as a going concern assumption adopted in the preparation of financial statement.

AS-2: Valuation of inventories

There is a wide area not covered by as-2. It lacks standardized approach as regards to the inventory valuation.

AS-3: Change in financial position

In principle, the term cash and cash flow are not uniquely defined in this standard. Some of the Indian companies prepare the cash flow statement following the guideline of AS-3. It should be mandatory.

AS-4: Contingencies and events occurring after the balance sheet date

It suggests that contingent gain should not be recognized since their recognition may result in the recognition of revenue which may never be realized.

AS-5: Prior period and extra ordinary items and changes in accounting policies

As-5 does not deal with the tax implication of extra ordinary items, prior period items, change in accounting estimates and changes in accounting policies for which appropriate adjustment will have to be made depending on the circumstances.

AS-6: Depreciation accounting

Depreciation accounting is yet an import and tool in the hand of corporate management. Depreciation book has no relevance in computing the taxable profit. This standard is also silent about the possible distortion of profit because of charging such deficiency or surplus in the account.

AS-7: Accounting for construction contracts

This rule allows both percentage of completion method and completed contract method for revenue recognition of Construction Contracts. It does not suggest any provisions in absence of which prudence in creating contingency reserve may be lost in many cases.

AS-8: Accounting for Research and Development Cost

The standard does not attempt to distinguish between research and development activities since it does not make any distinction in the accounting treatment thereof.

AS-9: Revenue recognition

AS-9 has covered under AS-7

AS-10: Accounting for Fixed Assets

The standard suggests capitalization of borrowing costs relating acquisition and construction of fixed assets till they are ready for use this process rather tantamount to revaluation of fixed assets.

AS-11: Accounting for the effect of changes in foreign rates

Foreign the translation and exchange of foreign currency is a very controversial issue in the field of financial accounting and its reporting. This is an unsound accounting policy and it should be eliminated.

AS-12: Accounting for Govt. Grants

This standard does not require disclosure of unfulfilled conditions and contingencies attached to the govt. grants however such disclosure cannot be avoided by virtue of AS-4.

AS-13: Accounting for Investment

This standard defines investment as an assets held by an enterprise for earning income by way of dividend. Definition conflicts with the meaning of investment followed in schedule VI to the companies act.

AS-14: Accounting for Amalgamations

The basic principle of substance over form is likely to be missed in many cases.

**AS-15: Accounting for Retirement benefits in the financial Statement of Employers.**

The standard has makes a distinction between small employer and others. It requires that separate disclosure of the amount of retirement cost charges to profit and loss a/c is not suggested unless required by the statute.

IV. COMPERISATION BETWEEN AS AND IAS**Table-1**

| Indian Accounting Standard (AS) | International Accounting Standard (IAS) |
|--|--|
| 1. Disclosure of Accounting policies. (AS-1) | Disclosure of Accounting policies. (IAS-1) |
| 2. Valuation of Inventories (AS-2) | Inventories (IAS-2) |
| 3. Changes in financial position.(AS-3) | Cash flow statement.(IAS-7) |
| 4. Contingencies and Events occurring after Balance sheet date (AS-4) | Contingencies and Events occurring after Balance sheet date (IAS-10) |
| 5. Prior period and Extraordinary items and changes in Accounting policies. (AS-5) | Net profit / loss for the period fundamental Errors and changes in A/c policies. (IAS-8) |
| 6. Depreciation Accounting.(AS-6) | Depreciation Accounting.(IAS-4) |
| 7 Accounting For construction contract. (AS-6) | Construction contract. (IAS-11) |
| 8. Accounting for Research & Development.(AS-8) | Research & Development Cost. (IAS-9) |
| 9. Revenue Recognition. (AS-9) | Revenue. (IAS-18) |
| 10. Accounting for Fixed Assets. | Properties, Plant & Equipment,(IAS-18) |
| 11. Accounting for fixed Assets.(AS-10) | The effect of changes in foreign exchange rate (IAS-21) |
| 12. Accounting for Govt. Grants. (AS-11) | Accounting for Govt. Grants & Disclosure of Govt. Assistance (IAS-20) |
| 13. Accounting for Investment.(AS-13) | Accounting for Investment. (IAS-20) |
| 14. Accounting For Amalgamation. (AS-14) | Business Combination. (IAS-22) |
| 15. Accounting for Retirement benefits in the Financial statement of Employers (AS-15) | Retirement Benefits Cost.(IAS-19) |

The accounting standard board (ASB) has released 15 accounting standards in our country and deal with various aspects of financial statement. Indian accounting standards have been based and modeled on the line of international accounting standards but they aren't exactly their copy either in word or in substance. They have developed and issued taking the Indian needs into consideration. But there is a great difference between the AS and IAS.

V. WHAT DOES IT NEED TO ENHANCE

Now, the word trade business and industries are going in the shape of globalize competitiveness. The following measures required a uniform accounting standard should be acceptable to each and every country as a mandatory.

Global Accounting:

1. Should be based on general understanding and accepted measures.
2. Methods of accounting standard should be based on different Act.
3. To have better comparison
4. For True and Fair view should incorporate.
5. Should be constituted with adequate representation of eminent members in practice.
6. Should protect the public interest and policies
7. The company LAW,SEBI and other laws should have power
8. Shall be fixed in the present computerized environment
9. Should be to impart better clarity and focus on how far uniform
10. Disclosure should ensure comparability
11. Should promote consistency uniformity and comparability of financial statements
12. Should established credibility and respect
13. ICAI is also to educate about the need and benefits
14. Should adopt the latest development according to the IAS.

Further, suggested that the ICAI should invite the researchers, professionals, academicians and experts of accounting field for discussion on latest accounting techniques and tools and the areas of accounting. Thus a standard should be a global system of accounting so that is creates general sense of confidence among the users of financial statement all over the world.

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