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Research Paper

Accountancy

Changing Accounting Paradigm

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ABSTRACT

The Globalization has enforced the Organization to implement changes in the field of Accounting paradigm and their valuation pattern which have affected the structure of the Corporate.

The Changing Accounting Paradigm includes the implementation of IFRS (International Financial Reporting Standard), Environmental Accounting and Human Resource Accounting.

In this phase the valuation aspect of the Companies have changed the value of the Corporate in the eyes of the Stakeholders which includes the Shareholders, Customers and Suppliers. These developments will impose the corporate to show the fair value of Accounting.

These developments have removed some of the traditional barriers to the Accounting valuation methods. And simultaneously these developments have shown radical changes in the market values of the Corporate.

KEYWORDS: International Financial Reporting Standards (IFRS), Environmental Accounting and Human Resource Accounting.

Introduction:

Indian companies are now more experienced in dealing with overseas M&A transactions and are considered serious contenders for acquiring Global Businesses. Acquiring global brands, gaining access to overseas markets and leveraging new technologies for Indian markets are some of the key drivers for outbound acquisitions by Indian companies. Simultaneously these Organizations have to present the true and fair view of the books of accounts. For that these Organizations have to implementing the latest developments which were implemented by these foreign countries.

The Accounting phase has done some developments regarding the valuation aspects of the Corporate. These changes have shown drastic change in the market value of the Organization which have adopted all the developments.

The main concern of earlier development was that they are not able to present the fair view of the Organization. But these drawbacks can be rectified by the latest development in the Accounting Methodology.

These new developments have their own valuation pattern of implementing and showing the positive result on market valuation of the corporate.

The Latest developments in Accounting Methodology were International Financial Reporting Standard (IFRS), Environmental Accounting and Human Resources Accounting. The implementing process of these three developments was differently from each other. The International Financial Reporting Standard (IFRS) has three different phases for implementing in the organization. Same way there were different models have been established for implementing the Environmental Accounting and Human Resources Accounting.

Body of the Paper.

International Financial Reporting Standard (IFRS)

Last decade has observed various changes of doing business across the world. The process of financial reporting of business activities also underwent a great change. This started in 2005 when European Union made it mandatory for publicly traded companies to present consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) starting from January 01, 2005. IFRSs were adopted legally first time in 2005 by European Union. Other countries with developed capital markets have adopted or in the process of adopting IFRS for reporting purposes. Many countries are replacing their national standards with IFRSs while some other countries have adopted this approach of first reviewing the IFRSs, ensure their suitability with their economic, political and social conditions and then adopt these IFRSs verbatim or with minor changes.

India, in 2007 announced that it would fully adopt IFRS by 2011 which is to be done in phases. First phase will include the companies which are part of Nifty 50 Index, Sensex 30, the companies which have shares or other securities listed on stock exchange outside India and the companies (whether listed or not) which have a net worth in excess of Rs 10 Billion. The Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for the periods beginning on or after 1st April 2011it is approved by Reserve Bank of India. IFRS applied to the companies at different phase. Basically the IFRS is divided into three phase. Phase one is for the companies which are listed at Sensex 30 and Nifty 50 and whose net worth is 10 billion and they have to implement IFRS from 1st April 2011. Phase two is for the companies which are not covered under phase one and whose net worth are 5 billion they will implement IFRS from 1st April 2012. Phase three is for the companies which are not covered under first two phase they have to applied IFRS from 1st April 2014.

Human Resources Accounting:

The American Accounting Association's Committee (1973) - "HRA is the process of identifying & measuring data about human resources and communicating this information to interested parties.

Human Resource Accounting is one of the valuable assets of the organization but there is no statutory regulations report it in the organization's annual reports. But sometimes the value of Human Resource is greater than the tangible value of assets but conventional accounting systems provide little chance to record and recognize these values of Human Resource.

Human Resource Accounting (HRA) is not an older issue in Management point of view. Management considers human capital as an important production factor and they try to explore different ways of measuring its investment. For example TATA, ONGC and INFOSYS are the Organization which is considering the Human as Human Capital.

According to Frey & Buhofer (1986), the genesis of human resource valuation can be traced back to the medieval European Wars in 1642. During this period a prisoner was conceived of as the general property of the capturing soldier. A quick decision had to be reached on the battlefield whether to kill or spare the prisoner's life depending on the costs of keeping the prisoner as compared with the expected future income.

The modern concept of HRA was originally developed by Rensis Likert (1966) at the University of Michigan, Institute of Social Research. Likert defends long-term planning by strong pressure on human resources' qualitative variables, resulting in greater benefits in the long-run.

The valuation of Human Resources Accounting was depending on the various models such as Jaggi and Lau's model, Organ's Model, Flamholtz Model, Lev & Schwartz's Model, Giles and Robinson's Model and Hermanson's model. These models have been developed to get the values of the Human Resources which has affected the Market value of the corporate. If any single person can left the organization and which directly affect the value of the Organization in financial terms i.e. Human Resources Accounting. These models have calculated the Humans

Value in terms of financial way based on the extra earnings or on based on the concepts of accounting.

Environmental Accounting:

The Environmental Accounting is also used as Green Accounting. The term "Greening" has been used a lot in the past thirty years in relation to different environmental issues. In many cases, the term is also used to name Organizations such as Green Belt Movement, operations such as Green Contracting etc. Green Accounting is a general term where it may mean Environmental, Ecological or Natural Resource Accounting. Needless to say that Environmental Accounting is also a general term which may mean the integration of environmental dimension into the macro or micro level despite that it is more applicable to the latter level.

The environmental accounting depends on two crucial factors. Firstly it must be focused on answering important policy question and secondly it must bring all the major players in the areas of environmental policy, economic policy national income accounting and the development information systems on the environment.

A proper environmental accounting system is a supporting measure for achieving Sustainable Development (SD) in the sense that it is the main tool for measurement, control and decision-making. Environmental expenditures whether Capital or Operating costs increase dramatically day after day. Management needs financial data about these expenditures. For strategic cost leadership. There are increasing needs from different stakeholders (government, investors, lenders, banks, non-governmental organizations...etc) to have financial data on the environmental performance of different organizations. If accounting does not provide financial data on the environmental performance of organizations that will help non-complying organizations/entities to pollute environment and spoil resource and yet appear more economic efficient than other which incur costs to protect the environment.

These were approaches to explore the Environmental Accounting such as Business Case Approach, Stakeholder Accountability Approach, Fund Based Approach and Critical Theory Approach. Environmental management is based on management accounting with activity-based costing as a main analytical approach to determining environmental costs and to quantify cost savings due to environmental performance. Environmental effects are established by setting hypotheses for whether or not to adopt proactive practices: pollution prevention and accounting for environmental costs-to-causes.

Conclusion

Ensuring a high quality corporate financial reporting environment depends on effective Control & Enforcement Mechanism. Merely adopting International Financial Reporting Standards is not enough. Each interested party, namely Top Management and Directors of the Firms, Independent Auditors and Accountants and Regulators and Law Makers will have to come together and work as a team for a smooth IFRS adoption procedure. Top Management should ensure that the Financial Statements are prepared in compliance with the IFRS. Auditors and Accountants should prepare and audit Financial Statements in compliance with IFRS. Regulators and Law Makers must implement efficient monitoring system of regulatory compliance of IFRS. Along with this the Regulators should ensure that proper changes are to be made in existing laws for IFRS adoption process.

Human Resources Accounting should have been valued as per described models and simultaneously they have to adopt the Human Resource Accounting in practice that should not be merely on the paper.

Environmental Accounting should be implemented by the Organization to save the earth and protect the Environment. If organizations were implementing the things then the organization market value should have done accordingly. The Government should give some motivators scheme for those organization that were implementing the Environmental Accounting and according they should got the reward. Then organization will motivate to protect the environment.

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