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A Study of International Accounting Standard & Indian Accounting Standard

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ABSTRACT *Over a period of time need arises to develop International Accounting Standards as accounting standards vary from country to country. As a result of this International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) are developed which can be accepted by more than single country. This paper focuses on procedure of issuance of International &Indian Accounting Standard, need of harmonization of global accounting standard & key difference in presentation of financial statement under International & Indian Accounting Standard. Key benefit in harmonizing accounting standard is common accounting system that is perceived as stable, transparent& fair To investors across the world. Cross-border merger & acquisitions will get a boost by making it easier for the parties involved in as per as redrawing the financial statements is concern.*

Introduction:-

Accounting Standards are used as regulatory mechanisms for preparation of financial reports in almost all the countries of the world. Accounting Standard are written policy documents issued by expert accounting body or government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation & disclosure of accounting transaction in the financial statement. Objective of accounting standard is to standardize the diverse accounting policies & practices with a view to eliminate to the extent the non-comparability of financial statements & add the reliability to the financial statements.

The rapid growth of international trade & Internationalization of firms create need of global harmonization of accounting standards as a company having presence in different countries has to prepare financial reports as per GAAP of the country where it operates. Under this global business environment, companies are in need of common accounting language in the form of harmonized accounting standard across the world.

From 1973 to 2000 **International Accounting Standard Committee (IASC)** was the body upon which the responsibility was set to issue International Accounting Standards. In 2001 IASC was replaced by **International Accounting Standards Board (IASB)**. Since then **International Accounting Standards Board (IASB)**, based at London - UK is now responsible to issue **International Financial Reporting Standards (IFRS)** and **International Accounting Standards (IAS)**. **IASB** is independent body and consists of members from nine different countries around the globe having variety of functional backgrounds. In India the **Institute of Chartered Accountants of India (ICAI)** has formed **Accounting Standards Board (ASB)** in 1977, upon which the responsibility was set to develop accounting standards to be issued and revised in the country from time to time. Though **ASB** is shaped by **ICAI**, it is independent in the formulation of accounting standards. **ASB** comprises members from various fields and organization and it also takes in to consideration customs, usages and business environment prevailing in the country while formulating the standards.

Objectives of the Study:

- To understand the procedure for issue of International Financial Reporting Standard & Indian Accounting Standard.
- To understand the need of harmonizing global accounting standard.
- To give insights to the key differences in presentation of financial statement under Indian & International accounting standard.

In India, accounting standard means the standard of accounting recommended by the ICAI & prescribed by the central government in consultation with the National Advisory Committee on Accounting Standard (NACAS) constituted under section 210A(1) of Companies Act,1956.

Procedure for issuance of Accounting Standard in India

In the preparation of Accounting Standard Accounting Standard Board (ASB) shall determine the broad areas in which Accounting standard need to be formulated, ASB will be assisted by Study groups constituted to consider specific subjects. It also hold a dialogue with the representatives of the Government, Public Sector Undertakings, Industry & other organizations for ascertaining their views. on that basis an exposure draft of the proposed standard will be prepared & issued for comments by members of the institute & the public at large. After taking into consideration the comments received, the draft of the proposed standard will be finalized by ASB and submitted to the Council of the Institute .The council of the Institute will consider the final draft of the proposed standard, if found necessary, modify the same in consultation with ASB. The accounting Standard on the relevant subject will then be issued under the authority of the council. So far ICAI has issued 32 Accounting Standards. Effectively there are 31 Accounting Standards at present.

Procedure for issuance of IFRS

1. Setting the agenda

The IASB, by developing high quality accounting standards, seeks to address a demand for better-quality information that is of value to all users of financial statements. Better–quality information will also be of value to preparers of financial statements.

The IASB evaluates the merits of adding a potential item to its agenda mainly by reference to the needs of investors.

The IASB considers:

- The relevance to users of the information and the reliability of information.
- Whether existing guidance available.
- The possibility of increasing convergence.
- The quality of the standard to be developed.
- Resource constraints.

To help the IASB in considering its future agenda, its staff is asked to identify, review and raise issues that might warrant

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the IASB's attention.

New issues may also arise from a change in the IASB's conceptual framework. In addition, the IASB raises and discusses potential agenda items in the light of comments from other standard-setters and other interested parties, the IFRS Advisory Council and the IFRS Interpretations Committee, and staff research and other recommendations.

The IASB receives requests from constituents to interpret, review or amend existing publications. The staff consider all such requests, summarize major or common issues raised, and present them to the IASB from time to time as candidates for when the IASB is next considering its agenda.

2. IASB meetings
The IASB's discussions of potential projects and its decisions to adopt new projects take place in meetings. Before reaching such decisions the IASB consults the IFRS Advisory Council and accounting standard-setting bodies on proposed agenda items and setting priorities. In making decisions regarding its agenda priorities, the IASB also considers factors related to its convergence initiatives with accounting standard-setters.

The IASB's approval to add agenda items, as well as its decisions on their priority, is by a simple majority vote at an IASB meeting.

3. Project planning
When adding an item to its active agenda, the IASB also decides whether to:

- Conduct the project alone, or
- Jointly with another standard-setter.
- Similar due process is followed under both approaches.

After considering the nature of the issues and the level of interest among constituents, the IASB may establish a working group at this stage.

A team is selected for the project by the two most senior members of the technical staff:

- The Director of Technical Activities; and
- The Director of Research.

The project manager draws up a project plan under the supervision of those Directors. The team may also include members of staff from other accounting standard-setters, as deemed appropriate by the IASB.

4. Development and publication of an IFRS
The development of an IFRS is carried out during IASB meetings, when the IASB considers the comments received on the exposure draft.

After resolving issues arising from the exposure draft, the IASB considers whether it should expose its revised proposals for public comment, for example by publishing a second exposure draft.

In considering the need for re-exposure, the IASB:
- Identifies substantial issues that emerged during the comment period on the exposure draft that it had not previously considered.
- Assesses the evidence that it has considered.
- Evaluates whether it has sufficiently understood the issues and actively sought the views of constituents.
- Considers whether the various viewpoints were aired in the exposure draft and adequately discussed and reviewed for conclusions.

5. Drafting the IFRS
The IASB's decision on whether to publish its revised proposals for another round of comment is made in an IASB meeting. If the IASB decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft.

When the IASB is satisfied that it has reached a conclusion on the issues arising from the exposure draft, it instructs the staff to draft the IFRS.

Pre-ballot draft
A pre-ballot draft is usually subject to external review, normally by the IFRIC. Shortly before the IASB ballots the standard, a near-final draft is posted on e IFRS.

Finally, after the due process is completed, all outstanding issues are resolved, and the IASB members have balloted in favor of publication, the IFRS is issued.

Procedures after an IFRS is issued
After an IFRS is issued, the staff and the IASB members hold regular meetings with interested parties, including other standard-setting bodies, to help understand unanticipated issues related to the practical implementation and potential impact of its proposals.

The IFRS Foundation also fosters educational activities to ensure consistency in the application of IFRSs.

After a suitable time, the IASB may consider initiating studies in the light of:

- Its review of the IFRS's application,
- Changes in the financial reporting environment and regulatory requirements, a
- Comments by the IFRS Advisory Council, the IFRS Interpretations Committee, standard-setters and constituents about the quality of the IFRS. Those studies may result in items being added to the IASB's agenda.

6. Development and publication
Although a discussion paper is not mandatory, the IASB normally publishes it as its first publication on any major new topic to explain the issue and solicit early comment from constituents.

If the IASB decides to omit this step, it will state why.

Typically, a discussion paper includes:

- a comprehensive overview of the issue;
- possible approaches in addressing the issue;
- the preliminary views of its authors or the IASB; andan invitation to comment.

This approach may differ if another accounting standard-setter develops the research paper.

Discussion papers may result either from:

- a research project being conducted by another accounting standard-setter; or
- as the first stage of an active agenda project carried out by the IASB. In the first case, the discussion paper is drafted by another standard-setter and published by the IASB. Issues related to the discussion paper are discussed in IASB meetings, and publication of such a paper requires a simple majority vote by the IASB.

If the discussion paper includes the preliminary views of other authors, the IASB reviews the draft discussion paper to ensure that its analysis is an appropriate basis on which to invite public comments.

For discussion papers on agenda items that are under the IASB's direction, or include its preliminary views, the IASB de-

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velops the paper or its views on the basis of analysis drawn from staff research and recommendations, as well as suggestions made by the IFRS Advisory Council, working groups and standard-setters and presentations from invited parties.

All discussions of technical issues related to the draft paper take place in public sessions.

Development and publication of an exposure draft
Publication of an exposure draft is a mandatory step in due process.

Irrespective of whether the IASB has published a discussion paper, an exposure draft is the IASB's main vehicle for consulting the public.

Unlike a discussion paper, an exposure draft sets out a specific proposal in the form of a proposed standard (or amendment to an existing standard)

The development of an exposure draft begins with the IASB considering:

- issues on the basis of staff research and recommendations;
- comments received on any discussion paper; and
- suggestions made by the IFRS Advisory Council, working groups and accounting standard-setters, and arising from public education sessions.

After resolving issues at its meetings, the IASB instructs the staff to draft the exposure draft. When the draft has been completed, and the IASB has balloted on it, the IASB publishes it for public comment.

Need of harmonizing global accounting standard
The globalization of business and finance creates need of global harmonization of accounting standards as a company operates in more than one country has to prepare financial reports as per GAAP of the country in which it operates & then it is required to reconcile all such reports for the purpose of consolidation as per GAAP of the country to which the parent belong. This increase the cost of preparing the financial report & also it creates hurdle in measuring the performance across the geographical region because of non-comparability of accounting rules. Differences in the accounting standard are bound to be there because of differences in the legal system, sources of corporate finance, government participation in accounting, degree of exposure in international market, etc from one country to another country.

The international standard-setting process began several decades ago as an effort by industrialized nations to create standards that could be used by developing and smaller nations unable to establish their own accounting standards. But as the business world became more global, regulators, investors, large companies and auditing firms began to realize the importance of having common standards in all areas of the financial reporting chain. In a survey conducted in late 2007 by the International Federation of Accountants (IFAC), a large majority of accounting leaders from around the world agreed that a single set of international standards is important for economic growth.

Growing interest in the global acceptance of a single set of robust accounting standards comes from all participants in the capital markets. Many multinational companies and national regulators and users support it because they believe that the use of common standards in the preparation of public company financial statements will make it easier to compare the financial results of reporting entities from different countries. They believe it will help investors understand opportunities better. Large public companies with subsidiaries in multiple jurisdictions would be able to use one accounting language company-wide and present their financial statements in the same language as their competitors. Another benefit some believe is that in a truly global economy, financial professionals including CPAs will be more mobile, and companies will more easily be able to respond to the human capital needs of their subsidiaries around the world.

Currently, more than 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies. The European Union (EU) requires companies incorporated in its member states whose securities are listed on an EU-regulated stock exchange to prepare their consolidated financial statements in accordance with IFRS.Australia, New Zealand and Israel have essentially adopted IFRS as their national standards. Brazil started using IFRS in 2010. Canada adopted IFRS, in full, on Jan. 1, 2011. Mexico will require adoption of IFRS for all listed entities starting in 2012. Japan is working to achieve convergence of IFRS and began permitting certain qualifying domestic companies to apply IFRS for fiscal years beginning April 1, 2010. A decision regarding the mandatory use of IFRS in Japan is to be made around 2012. Hong Kong has adopted national standards that are equivalent to IFRS and China is converging its accounting standards with IFRS. Other countries have plans to adopt IFRS or converge their national standards with IFRS.

Presentation of Financial statement
Companies Act requires preparation of
- Balance Sheet.
- Profit & Loss Account.
- Notes to Accounts
- Whereas as per IAS-1 preparation of
- Statement of Financial Position (Balance Sheet)
- Income Statement (Profit & Loss Account)
- Statement of Changes in Equity (SOCIE)
- Statement of Cash flows.
- Notes comprising a summary of significant accounting policies & other explanatory information.
- Statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statement.

Balance Sheet
IFRS does not prescribe a particular format of Balance Sheet. A current/non-current presentation of assets & liabilities is used, unless a liquidity presentation provides more relevant & reliable information. Certain minimum items are presented on the face of the balance sheet. Indian GAAP also does not prescribe a particular format; certain items must be presented on the face of the balance sheet. Whereas Formats prescribed by the Companies Act, 1956 & other Industry regulations like banking, insurance etc is applicable for Indian companies for presentation of financial statement.

Income Statement
IFRS does not prescribe format for the income statement. The entity should select a method of presenting its expenses by either function or nature; this can either be, on the face of the income statement, as is encouraged, or in the notes. Additional disclosure of expenses by nature is required if functional presentation is used. IFRS requires, as a minimum presentation of the following items on the face of the income statement:

- Revenue.
- Finance costs
- share of post-tax result of associates and joint ventures accounted for using the equity method
- tax expense
- profit or loss for the period

Indian GAAP does not prescribed format for the income statement. However, the accounting standards & the Companies Act prescribe disclosure norms for certain income &

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expenditure items. In practice, the expenses are presented by either function or nature. Other Industry regulations prescribes specific format of the income statement.

Separate disclosure if required of items of income & expense that are of such size, nature or incidence that their separate disclosure is necessary to explain the performance of the entity for the period. Disclosure may be on the face of the income statement or in the notes. FRS does not use or define the term 'exceptional Items'. Indian GAAP requires separate disclosure of items income and expense like IFRS except that the Companies Act uses the term 'exceptional Items'.

Under IFRS disclosure of items as extraordinary item is prohibited. Whereas, Indian GAAP defines extraordinary items as events or transaction clearly distinct from the ordinary activities of the entity & are not expected to recur frequently & regularly. Disclosure of the nature & amount of each extraordinary item is required in the income statement in a manner that its impact on current profit or loss can be perceived.

Statement of Changes in Equity (SOCIE)
Under IFRS Statement of Changes in Equity (SOCIE) is presented as a primary statement. In addition to the items required to be in SOCIE, it should show capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. Whereas under Indian GAAP no separate statement is required. Changes in shareholders' equity are disclosed in separate schedules of 'Share Capital' and 'Reserves & Surplus'.

Statement of Cash flows.
IFRS requires preparation of cash flow statement no exemptions for preparation of the same. FRS permits the preparation of cash flow statement using either direct or indirect method the In India as per AS-3 cash flow statement is mandatory for listed companies & it should be prepared by using indirect method & direct method is prescribed for insurance companies.

Under IFRS Bank overdraft repayable on demand is treated as cash & cash equivalents if they form integral part of the entity's cash management. As per As-3 cash flow statement does not provide any guidance on Bank Overdrafts. However, Bank Overdraft are treated as Financial Activities as a normal practice. IFRS does not provide any guidance for classifying cash flow arising due to Dividend & Interest. They may be classified as Operating, Financial or Investing activities. Indian GAAP prescribes interest and dividend as cash from financing activities. Dividend and interest received are classified as cash flow from investing activities. Only in case of a financial enterprise, interest paid, interest received & dividend received should be should be classified as operating activities.

Changes in accounting policy
IFRS prescribes if there is changes in accounting policy then 'Comparative year 's information is restated and the amount of the adjustment relating to prior period is adjusted against opening balances of retained earnings of the earliest prior period presented, unless specifically exempted. Under Indian GAAP restatement is not required. The effect of changes is included in current year income statement. The impact of change is disclosed.

Correction of errors
IFRS prescribes if error occurred before the earliest prior period presented, the opening balances of assets, liabilities and equity for the earliest prior period presented are restated. Whereas, Indian GAAP prescribes if errors occurred then restatement is not required. The effect of correction is included in current year income statement with separate disclosure.

Conclusion
International financial Reporting Standard focuses on quality, reliability & relevancy aspects of the information to all its users allover the globe while setting a new standard. Harmonization of Accounting Standard is a need to create & develop global economy.Harmonisation wills results into true & fair presentation of financial statement that can be easily accessible to all the potential users including potential investors. IFRS provided detailed guideline for presentation of financial statement & it gives more insights about the financial information of the entity so that investor can compare it with other entity to find out best investment option. For MNC's adoption of IFRS will result into reduction in the cost of preparation of financial statement & also overcome the difficulty of consolidation of financial statements working in different country.

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