Research Paper Commerce

Convergence of Accounting Standards: An Overall View

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ABSTRACT

Convergence of accounting standard is concept of establishing a single accounting standard worldwide. In a financial reporting context, convergence is the process of harmonizing accounting standards issued by different regulatory bodies. The convergence of Accounting standard serves not only depiction of accounting information in a harmonized manner, but also stops occurrence of financial scams, creates investment opportunities and security. The objective of this paper is to explore the concept of convergence of accounting along with the need of convergence accounting to world. In this context we have overviewed the concept of Indian Accounting Standard, International Financial Reporting Standards (IFRS) and International Accounting Standard (IAS)

KEYWORDS Convergence Accounting, Indian Accounting Standard, IFRS, IAS

Introduction

Most of the accounting standard setters around the world for harmonizing the accounting standards so that they are at par with the International Standard or at least are equal in terms of disclosure of accounting information in a synchronized manner.

Convergence can have array of diverse meanings: however it is generally understand that all standard setters should agree on a single, high quality set of accounting standards. The accounting standard-setters around the world are collaborating on projects and working towards convergence so as to improve accounting and stop scams like Enron and WorldCom from reoccurrence.

In the nutshell it can be said that convergence is the collaborated effort of all the accounting standard setting bodies around the world to aim at same policy of accounting standard so that accounting information demonstrated by various companies across the world transmit the same meaning.

Convergence of accounting standard is concept of establishing a single accounting standard worldwide. In a financial reporting context, convergence is the process of harmonizing accounting standards issued by different regulatory bodies. Convergence of accounting standard is the set of accounting which is accepted over the globe. It is belief that having single set of accounting numbers, which will increase the flow of international investment and benefit a variety of stakeholders. After years of planning , world is heading towards convergence of accounting standard .It refers to the goal of establishing a single set of high quality accounting standard that will be used internationally , and in particular the effort to reduce differences between the GAAPs and IFRS .

Literature Review

Nick Topazio(2008) "Convergence of Accounting Standards" Topic Gateway Series No. 4 There are two aspects to the current convergence International Convergence – the process within which the International Accounting Standards Board (IASB) and National Standard-Setters (NSS) are converging their respective financial reporting standards into one global set of accounting regulations, National GAAP Convergence – the adoption of International Standards as national GAAP. For example, the Accounting Standards Board (ASB) in the UK is working to converge its own financial reporting standards with those of the IASB.

Luzi Hail(2009) "Global Accounting Convergence and the Potential Adoption of IFRS by the United States: An Analysis of Economic and Policy Factors" The scenarios we discuss are: (1) maintain U.S. GAAP with acceptance of IFRS for foreign firms, (2) maintain U.S. GAAP with a new IASB-FASB agreement to accelerate convergence between IFRS and U.S. GAAP, (3) choice between IFRS and U.S. GAAP, but require reconciliation, (4) unrestricted choice between IFRS and U.S. GAAP, (5) "U.S. IFRS" – require IFRS for all firms plus an SEC/FASB overlay that provides guidance, additional disclosure requirements, and, in some cases, supplemental standards, (6) flexible timetable to fully adopt IFRS, and (7) International U.S. GAAP (I-GAAP) – a competing set of international standards (drawing on the foundation of U.S. GAAP) designed to meet the needs of the U.S. and other countries

Nikhil Chandra Shil(2009)"Harmonization of Accounting Standards through Internationalization" Many of the initial hurdles in the process of harmonization have been overcome and much progress towards convergence of accounting principles and procedures among countries has already been achieved. Convergence initiatives are now working much more effectively than ever before. Differences are still there but they are narrowing. It is expected that the pace of progress in the sphere of convergence will accelerate further in the coming years. In Indian perspective, it will continue to adopt IASs/IFRSs in the near future with few modifications to cater to the requirements of local climate. Setting IFRS under new regulatory framework is also a notable success in harmonization. IAS permits some alternative practices that has been reduced in IFRS to make the prescription common to all so that following same standards cannot generate varying practices. We expect that this process will ultimately set new benchmark for achieving harmonization in both national and international level.

S.P. Srivastava(2009) "Convergence of Indian Accounting Standards with IFRS : Prospects and Challenges" Irrespective of various challenges, adoption of IFRS in India has significantly changed the contents of corporate financial statements as a result of: ore refined measurements of performance and state of affairs, and l Enhanced disclosures leading to greater transparency

Appah Ebimobowei(2012) "Convergence of Accounting Standards: The Continuing Debate" Accounting standards are important regulatory devices of accounting. They serve as a contract template among parties who participate in a firm, such as management, creditors and investors. Convergence describes efforts to reduce the major differences between International Financial Reporting Standards (IFRS) and other national standards issued by different countries.

Objectives of Study

- The Convergence of Accounting Standards: An Overview
- To understand need of Convergence of Accounting Standard

Research Methodology

The proposed research work based on descriptive and analytical research. Data will be collected through the entire relevant source like publication of various corporate bodies, government organization, other published book and journal related to the Convergence of Accounting Standards Commercial magazine, Newspaper and various research papers.

Roadmap to Convergence of International Accounting Standard

Year	
1999	The Financial Accounting Standard Board (FASB) outlined its support for dual goals of converging global accounting standards while to continuing to improve U.S. GAAP
2002	The FASB and International Accounting Standard Board (IASB) began working together
March 2002	EU Decision to adopt IAS for the consolidated accounts of its listed companies
September 2002	The Norwalk Agreement in which IASB and FASB each acknowledged their commitment to develop high quality, compatible accounting standards for both domestic and cross-border financial reporting
2004	The IASB and The Accounting Standards Board of Japan agreed to discuss a joint project to minimize differences between IFRS and Japanese accounting standards, with a final goal of convergence of their standards
2006	Canada's Accounting Standards Board approved a plan for convergence with IFRS
February 2006	The Chinese Ministry of Finance announced the adoption of a new Chinese accounting standards system to bring about substantial convergence with IFRS
2007	The US SEC announce that convergence has progressed sufficiently for them to remove the requirement for overseas companies to file a reconciliation to US GAAP with their IFRS financial statements
2008	The US SEC announced that their 2008 agenda would include a continuation of the progress being made in the US towards acceptance of IFRS for domestic filers

Roadmap in Indian Perspective

2009	A core group constituted
July2009	Ministry of Corporate Affairs (MCA) to prepare road-map for convergence with representatives from Regulatory Bodies. RBI CAG SEBI IRDA Pension Fund Regulatory and Development Authority Ministry of Finance, The Institute of Chartered Accountants of India (ICAI), Chamber & Industry bodies and Experts.
2010	Roadmap Announced by MCA
2011	The Ind-AS were applied to specific class of companies in phases beginning with the financial year 1st April, 2011.

IFRS

IFRS 1	First-time adoption of international financial reporting standards
IFRS 2	Share-based payment
IFRS 3	Business combinations
IFRS 4	Insurance contracts
IFRS 5	Non-current assets held for sale and discontinued operations
IFRS 6	Exploration for and evaluation of mineral and assets
IFRS 7	Financial instruments: disclosures
IFRS 8	Operating segments

International Accounting Standards (IAS)

IAS 1	Presentation of financial statements
IAS 2	Inventories
IAS 5	Information to be disclosed in financial statement superseded by IAS 1 in 1997
IAS 6	Accounting responses of changing prices superseded by IAS 15
IAS 7	Cash flow statements
IAS 8	Accounting policies, changes in accounting estimates and errors
IAS 9	Accounting for research and development activities superseded by IAS 38
IAS 10	Events after the balance sheet date
IAS 11	Construction contracts
IAS 12	Income taxes
IAS 13	Presentation of current assets and current liabilities superseded by IAS 1
IAS 14	Segment reporting
IAS 15	Information reflecting the effects of changing prices withdrawn December2003
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 18	Revenues
IAS 19	Employee benefits
IAS 20	Accounting for government grants and disclosure of government assistance
IAS 21	The effects of changes in foreign exchange rates
IAS 22	Business combinations superseded by IFRS 3
IAS 23	Borrowing costs
IAS 24	Related party disclosures

IAS 25	Accounting for investments superseded by IAS 39 and IAS 40
IAS 26	Accounting and reporting by retirement benefit plans
IAS 27	Consolidated and separate financial statements
IAS 28	Investments in associates
IAS 29	Financial reporting in hyperinflationary economies
IAS 30	Disclosures in the financial statements of banks and similar financial institutions superseded by IFRS 7
IAS 31	Interests in joint ventures
IAS 32	Financial instruments: presentation disclosure provisions superseded by IFRS 7
IAS 33	Earnings per share
IAS 34	Interim financial reporting
IAS 35	Discontinuing operations superseded by IFRS 5 effective 2005
IAS 36	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets
IAS 38	Intangible assets
IAS 39	Financial instruments: recognition and measurement
IAS 40	Investment property
IAS 41	Agriculture

****IAS-3,4,5,6,9,13,15,22,25,30& 35 are withdrawn by IASB**

IFRS Proposed Roadmap for India

2011	NSE-Nifty 50 companies BSE-Sensex 30 Companies Companies whose shares or other securities listed outside India Companies listed or not, having a net worth in excess of Rs.1000 crores*
2012	All Insurance Companies
2013	Companies listed or having a net worth between Rs 500crores and 100 crores * All Scheduled Commercial Banks Urban co-operative banks having a net worth in excess of Rs 300 crores NBFCs- Nifty 50 or Sensex 30 NBFCs listed or not, having a net worth more than Rs 1000 crores
2014	Listed companies having net worth of less Rs 500 crores * Urban co-operative banks having nte worth between Rs 200 to Rs 300 crores NBFCs(all other Listed) NBFCs(other Unlisted) having net worth between Rs 500 to Rs 1000 Crores

"Company not covered in the above chart will apply 'existing Indian Accounting Standard or voluntarily opt to apply the IFRS converged accounting standards"

*These exclude insurance companies, bank and non-banking finance companies

Need for Convergence of Accounting Standards:

The convergence of Accounting standard serves not only depiction of accounting information in a harmonized manner, but also stops occurrence of financial scams, creates investment opportunities and security. To exemplify the following points are worth noting

- Non-recurrence of another Enron and the like, it is necessary to harmonize the accounting standard between different countries since now days, investors seek investment opportunities all over the world. People who invest overseas naturally want to be able to keep track of financial health of the securities issuers. Convergence of accounting standards is the only means to achieve this. Only by talking the same language can one understand each other across borders.
- Secondly the investors find it easy to read financial statements, which are written in accounting standards, which are applicable, worldwide. Thus, convergence of accounting worldwide will greatly help the users of accounting and financial information in making informed economic decision about these companies.
- Thirdly the companies find it to easier to prepare their financial statements in one set accounting standards, as against multiple standards. Thus from their point view the burden of financial reporting would be greatly lessened.
- Convergence on accounting standards also helps accountants to forecast the sales and profitability of the corporate in a realistic manner.
- Lastly, the convergence will also greatly help multinational companies who have been preparing their statements in USGAAP and IFRS and other local standards.

Indian Accounting Differ From International Financial Reporting Standards

Indian requirements are mainly based on the Companies Act 1956, on regulation of the Company Law Board and on standards issued by the Institute of Chartered Accountants of India (ICAI). In addition, listed companies must follow the rules, regulations and releases issued by the Securities and Exchange Board of India.

Ind AS v IFRS

- **General**

o Different terminology is used in Ind AS, eg the term "Balance Sheet" is used instead of "Statement o Financial Position" and "Statement of Profit and Loss" is used instead of "Statement of Comprehensive Income". The words ' approval of the financial statements for issue" have been used instead of "authorization of the financial statement for issue" in the context of financial statements considered for the purpose of events after the reporting period.
o IFRS permits the periodicity, for example, of %2 weeks for preparation of financial statements. Ind AS does not permit it.
o Certain paras have been deleted in various Ind AS in line with the carve outs/removal of options. However, same para numbering has been retained in Ind AS to maintain consistency with para number of IAS/IFRS
o The transitional provision given in various IAS/IFRS/IFRIC/SIC have not been given in Ind AS since all transitional provisions related to Ind Ass, wherever considered appropriate have been included in Ind AS 101, Fist- time Adoption of Indian Accounting Standards corresponding to IFRS 1, First-time Adoption of International Financial Reporting Standards.

- **Absence of Specific Rules in Following Areas**

o Accounting for Joint Ventures IAS 31
o The creation of Provision in the context of business
o Combinations accounted for as acquisitions IAS 22.31
o The Capitalization of lease IAS 17.12

- **No Specific rules requiring disclosures**

o A Primary statement of changes in equity IAS 1.7
o The Fair values of Financial assets and liabilities , except for Quoted IAS 32.77

Inconsistencies between Indian and IAS rules: Certain Areas

- The Classification of business combinations as acquisitions or uniting of interest is not based on the ability to identify an acquire IAS 22.8
- Exchange differences arising on foreign currency liabilities related to the purchase of fixed assets are used to adjust the fixed assets rather than being taken to income IAS21.15
- Certain research costs can be capitalized IAS 38.42
- Certain expenditures on intangible items that are not assets can be capitalized IAS 38.56
- Revaluations of assets do not need to be kept up-to-date IAS16.29
- Operating lease payments are generally recognized on the basis of legal arrangements rather than straight- line, and there are no specific requirement on the treatment of lease incentives IAS 17.25: SIC 15
- Provision can be created when there is no obligation IAS 37.14

- Proposed dividends are accrued IAS 10.11
- An Issuer's Financial Instruments are generally accounted for on the basis of their legal form, and compound instruments are not split into liability and equity components IAS32.18/23
- The calculation of earnings per share may use a variety of bases. IAS33.10/11/20.

Conclusion

After studying we conclude, convergence of Accounting standard serves not only depiction of accounting information in a harmonized manner, but also stops occurrence of financial scams, creates investment opportunities and security. Convergence of Accounting will lead effective changes in accounting field not only it stops all possible error it will provide same equity over the world same manner of accounting. Convergence of Accounting is only possible when it is adopted by all nations. Adoption of IFRS or Adapting of their own standards to IFRS. Convergence of Accounting Standards in India has been brought in by Ministry of Corporate Affairs with accordance to IFRS.

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