International Journal of Global Research Innovations & Technology (IJGRIT)
ISSN : 2583-8717, Volume 01, No. 03, July-September, 2023, pp 66-70

DEVELOPMENT IN ACCOUNTING STANDARDS AND ITS IMPACT ON FINANCIAL REPORTING

Dr. Suresh Chand Singhal*
Dr. Anil Saxena**

ABSTRACT

The need for account standards specifically for the country's profitable environment was also felt in India. Feting the need to harmonize the different account programs and practices in India and keeping in view the transnational developments in the field of account, the Council of Institute of Chartered Accountants of India (ICAI) constituted the Accounting standards Boards (ASB) in April, 1977. To regularize the different account programs and practices and with a view to exclude to the extent possible, the non community of Financial statements and to add trustability of Financial statements, Accounting standards are issued. The need of accounting standards was honored by The Institute of Chartered Accountants of India and thus, it constituted an Account Standards Board on 21st April 1977. The Board is continuously issuing account standards in various areas as applicable to business houses. At the same time, it also revises the being accounting standards as per the need of changing script. With the use of accounting standards, confusing variations in account treatment is reduced significantly. Also, there's certain important information which isn't needed to be barred by law but Account standards impel it to be bared. Comparison of Financial statements of different companies is possible only because of accounting standards. In last 7- 8 Times the figures of accounting standards have increased significantly and consequently, it has also affected the medication of financial statements by the companies. There are significant changes in reporting formats of financial statements of Companies as well in exposure of programs. Thus this research is accepted to study in detail the development of Accounting standards and its impact on medication and reporting of financial statements of certain named diligence.

Keywords: *Financial Statement, Accounting Standards, Comparison, Accounting Policies, Practices.*

Introduction

It's anticipated that accounts should give information to meet requirements of both of the below i.e. internal operation and external users. Information requirements of outlanders are generally served through Financial Statements. 'Financial Statements' means the Balance distance as at the end of the account period and Profit and Loss Account for the account period along with schedules, notes and counting programs followed to prepare these Statements. The need for account standards specifically for the country's profitable environment was also felt in India. Feting the need to harmonize the different account programs and practices in India and keeping in view the transnational developments in the field of account, the Council of Institute of Chartered Accountants of India (ICAI) constituted the Accounting standards Boards (ASB) in April, 1977. Various account standards have been issues. Numerous of these Account standards are obligatory in nature and must be followed while preparing and issuing Financial Statements by the business houses. Ensuring the compliance is the responsibility of the operation of the

* Associate Professor, Department of Accounts & Law, (Faculty of Commerce) K.R. (P.G.) College, Mathura (Affiliated to Dr. B.R. Ambedkar University, Agra, UP, India.
** Associate Professor, Department of Accounts & Law, (Faculty of Commerce) K.R. (P.G.) College, Mathura (Affiliated to Dr. B.R. Ambedkar University, Agra, U.P., India.

enterprise. At the same time, adjudicators have to confirm that all obligatory Account standards are followed by the enterprise when he carries out the attest function. There are also certain vittles in the Companies Act, 2013 and Income Tax Act, 1961 which state that while preparing Financial statements certain account standards are to be followed. Statutorily these standards are needed to be enforced by the operation. Section 145 of the Income Tax Act specifies the use of account standards to be followed by any class of assessee or in respect of any class of income.

Why we Need Accounting Standards

Account as a "language of business" communicates the Financial performance and position of an enterprise to various interested parties by means of Financial statements which have to parade a ' true and fair ' view of Financial results and its countries of affairs. Like any other language, account has its own complicated set of rules. The introductory conventions or rules used in preparing financial statements had evolved over numerous times as a product of the collaborative experience of rehearsing accountants. As a result a wide variety of account styles were used by different companies. It was, also, felt that there should be some standardized set of rules and counting principles to reduce or exclude confusing variations in the styles used to prepare financial statements. Still, similar account rules should have a reasonable degree of inflexibility in view of specific circumstances of an enterprise and also in line with the changes in the profitable environment, social requirements, legal requirements and technological developments. In order to suggest rules and criteria of account measures, several account standard setting bodies were established in developed and developing countries. The setting of account standards is a social decision. Standards place restrictions on behaviour and thus they must be accepted by affected parties. The account standards seek to describe the account principles, the valuation ways and the styles of applying the account principles in the medication and contribution of financial statements so that they may give a true and fair view. The putative purpose of the standard setting bodies is to promote the dispersion of timely and useful financial information to investors and certain other parties having an interest in company's profitable performance. The need for account standards specifically suitable for the country's profitable environment was also felt in India. Feting the need to harmonies the different account programs and practices in India and keeping in view the transnational developments in the field of account, the council of Institute of Chartered Accountants of India (ICAI) constituted the Accounting standards Board(ASB) in April, 1977.

Benefits of Achieving Convergence with International Financial Reporting Standards

Recognising the need for transnational harmonisation of account standards, in 1973, the International Accounting standards Committee (IASC) was established. It may be mentioned then that the IASC has been reconstituted as the International Accounting standards Board (IASB). The objects of IASC included creation of the International Accounting standards for worldwide acceptance and observance so that the account standards in different countries are harmonised. In recent times, need for transnational harmonisation of accounting standards followed in different countries has grown vastly as the cross-border transfers of capital are getting decreasingly common. The relinquishment of IFRS is anticipated to have a significant impact on all stakeholders, similar as controllers, professionals, prepares of Financial statements, judges, users of Financial information and so on.

- **The Economy:** The confluence with IFRS benefits the economy as a whole by accelerating growth of transnational business. It strengthens the economy with a strong and effective capital market, where cost of capital becomes cheaper, leading to flux of transnational investment into the country.
- **The Investors**: Confluence with IFRS facilitates those investors who want to expand their cross-border business operations. For this purpose, investors want information that's applicable, dependable, timely and similar across locales. Confluence with transnational standards will mean a clear understanding of financial statements by investors.
- **The Industry**: realities can raise capital from foreign markets at lower cost only if they can produce trust and confidence in the minds of the foreign investors through "True and Fair" contribution of their Financial statements by espousing encyclopedically respectable standards.
- **The Accounting Professionals**: Convergence benefits counting professionals who can offer their services to different corridor of the world. It offers different openings to account professionals in any part of the globe, as the same account practices prevail throughout the world.

It's anticipated that accounts should give information to meet requirements of both of the below i.e. internal operation and external users. Information requirements of outlanders are generally served through Financial Statements. 'Financial Statements' means the Balance distance as at the end of the account period and Profit and Loss Account for the account period along with schedules, notes and counting programs followed to prepare these Statements.

Financial Reporting

Every business has to prepare its financial statements on monthly base and submit it to various agencies related with the business. Similar users of accounts include possessors, top position operation, members or shareholders of the business, bankers, duty authorities, creditors, investors etc. It's clarified by the council that all obligatory AS shall apply in respect of general purpose financial statements of the existent/ bodies where similar statements are statutorily needed to be checked under any law. It's reiterated that the Institute issues Accounting standards for use in contribution of general purpose financial statements issued to the public by similar marketable, artificial or business enterprises as may be specified by the Institute from time to time and subject to the attest function of its members. The term "General Purpose Financial Statements" includes Balance distance, Statement of Profit and Loss and other statements and explicatory notes which form part thereof, issued for use of shareholders members, creditors, workers and public at large. It's also made clear that obligatory status of an account standard implies that it'll be the duty of the members of the Institute to examine whether the Accounting Standard is complied with in the contribution of financial statements covered by their inspection. In the event of any divagation from the Accounting Standard, it'll be their duty to make acceptable exposures in their inspection reports so that the users of financial statements may be apprehensive of similar diversions. General purpose financial statements complying with account standards should present fairly the financial position, financial performance and cash overflows of an organisation. This information will be useful to possessors, investors, creditors, judges, workers, controllers and others in making and assessing opinions about the allocation of scarce profitable resources. When pots and other organisations misbehave with account standards, their general purpose financial statements should be more similar than they would else be. This allows investors and other users of the financial statements to more compare the organisations. Financial statements also give one means by which the operation and governing body of an organisation are responsible to those who give resources to the organisation. The provision of information for responsibility purposes is a particularly important aspect of financial reporting by public sector organisations and not- for- profit realities in the private sector. While reading the financial statements, only statements don't give the full and clear picture about the financial position of the association. The notes adjoined to Financial Statements and Significant Account programs attached to the statements give a veritably clear picture about the financial position and one comes to know the detailed position and account treatment of various particulars appearing in financial statements. Disclosure of similar significant Account programs is needed and obligatory due to the vittles of AS- 1 and corresponding Disclosure requirements specified in various Accounting standards. As per recent developments it may be notified that listed companies will have to reinstate their financial statements if their adjudicator comes up with adverse commentary i.e. Inspection qualifications. In similar case, the principal administrative officer or principal financial officer of a company will bear the cost of the fresh inspection. The Commission on exposures and Accounting standards has recommended that stock exchanges be authorised to 'prima- facie' act on any 'material' qualification made by an adjudicator to seek a paraphrase of the company's accounts. This will give adjudicators a final say-so on a company's accounts as compared to the current practice of making a note of their good reflections. As per the offer, while filing their periodic reports companies will have to submit a protestation before the exchange giving details about the inspection qualifications, if any. The stock exchange can also seek further inputs from the company and the adjudicator.

Reporting Requirements as per Accounting Standards

Accounting standards issued by the ICAI have legal recognition through the Companies Act, 1956, whereby every company is needed to misbehave with the Accounting standards and the statutory adjudicators are needed to report whether the Accounting standards have been complied with or not. Also, the Insurance Regulatory and Development Authority (IRDA) as per the vittles of Preparation of Financial Statements and Auditor's Report of Insurance Companies Regulations, 2000 requires insurance companies to follow the Accounting standards issued by the ICAI. The Securities and Exchange Board of India (SEBI) and the Reserve Bank of India also bear compliance with the Accounting standards issued by the ICAI from time to time. One significant difference between GAAP and IFRS rests in the quantum of detail each go into in explaining various principles. Restrictions and rules are more open to interpretation, making them more unclear. Also, IFRS was created by an account board called the International Accounting standards Board (IASB) in 2001. They were principally a durability of the International Accounting standards which were the original principles created by IASB. IFRS has hypotheticals, principles, and constraints just as GAAP; still they're much more introductory and open to interpretation. Those which have little to no experience with transnational companies will have to spend significant quantities of time and money on espousing these new principles. Not only will business and pots have to train their workers, but advanced- position education courses will also need to be changed. Colleges and institutions will have to modify courses that are offered in order to give scholars acceptable and over- to- date information. They must support the transnational standards because they will be more salutary in their post graduate years. However, there could be a significant impact on forthcoming council graduates, if sodalities and universities fail to do this.

Impact of Globalisation on Financial Reporting

The present period of globalisation and liberalisation has shrunk the geographical walls of commerce. The whole world has literally come flat. One can see the cross-border profitable conditioning passing in a nippy way. These realities are listed on major stock exchanges of the world. Capital markets have also spread their bodies across the globe, leading to free inflow of domestic and foreign direct investments to different corridor of the world. Given these scripts, a common and slightly accepted Financial Reporting System, supported by strong governance practices and a firm nonsupervisory frame, strengthens the profitable development of any country. As investors have also come global, financial statements of realities of different countries should be similar on prescribed common parameters. A common set of financial statements help investors more understand investment openings worldwide as against financial statements of different standards unique to each country. The Indian CFO moment, while presenting Financial statements, prepares them as per AS (Indian Accounting standards), US GAAP if the stocks are listed in USA, or other standards depending on where the stocks are listed. This is also true of MNCs who establish their shop in India, which is one of the most sought after destinations for setting up their business operations. Further, different reporting material in various countries lead to inconsistent treatment and contribution of profitable deals by realities. This can cloud the outlook and perspective of investors vis- à- vis the realities, which, in turn, results in capital market inefficiencies across the world. Similar adding complexity of business operations and globalisation of capital markets makes obligatory a single set of high quality reporting standards. This space can aptly be filled in with the emergence of International Financial Reporting standards (IFRS), as formulated by the International Accounting standards Board. IFRS has surfaced as a new force in aligning the global enterprises on a single line.

Conclusion

Considering the significance of accounting standards in medication of Financial Statements, Institute has issued various Accounting standards so far. It's doing its stylish so that Indian Accounting standards are at par with the International Accounting standards. Proper cognizance is also taken by the Government of the same as there are certain vittles in Companies Act and Income Tax Act to prepare Financial Statement with adherence to the specified Account standards. It could be said that although companies are more or less complying with the Accounting standards indeed though invariant account policy is desirable. Account standards are essential to the effective functioning of the economy because opinions about the allocation of the resources calculate heavily on the believable, terse and accessible financial information, but still some variations are needed. Indeed, India has been conforming transnational account standards. Only in a many areas the Indian standards differ from IFRS. It's observed that maturity of companies misbehave and observe with the vittles of the Accounting standards. Adjudicators of listed and large scale units corroborate the compliance and issue their inspection reports consequently. In rare cases, AS are enforced at a after date than it was made obligatory. There are rare cases of non compliance of a particular AS. In similar cases, adjudicators issue good inspection report. Adjudicators take care that wherever possible, quantification of effect of resistance is also reported so that compendiums of financial statements come to know the exact position of the company. The effect on profitability and on financial position is quantified and mentioned in the inspection report itself.

References

1. Adhikari, A., and R. H. Tondkar [1992]. Environmental Factors Influencing Accounting Disclosure Requirements of Global Stock Exchanges, Journal of International Financial Management and Accounting, 4(2), pp. 75-105.

2. Ball, R., S. Kothari, and A. Robin [1998]. The Effect of International Institutional Factors on Properties of Accounting Earnings, William E. Simon Graduate School of Business Administration, University of Rochester
3. Cheema, C. S., and R. I. Singh [2004]. Stakeholders and Environmental Disclosure- A Study of Indian Companies, The Indian Journal of Commerce, Vol. 57, No. 3, July-September, pp.143-156.
4. Dunne, K. M., and G.A. Ndubizu [1995]. International Acquisition Accounting Method and Corporate Multinationalism: Evidence from Foreign Acquisitions," Journal of International Business Studies, Vol. 26(2), pp. 361-374.
5. Ghosh, P.K., [1990]. Accounting Standards and Policies: Theory and Practice, Paper presented at the Conference on Symposium on Contemporary Issues in Accounting, Dharwad.
6. Gupta, Lalit., [2001]. Accounting Policies: Theory and Practice - A Study of Indian Textile Industry, Jodhpur: Books Treasure.
7. Jaggi, B., and P.Y. Low. [2000]. Impact of Culture, Market Forces, and Legal System on Financial Disclosers, The International Journal of Accounting, Vol. 35, pp. 495-519.
8. Joshi, P.L., [1988]. Empirical Research on the International Harmonization of Accounting Standards and Practices: Survey Findings, Journal of Financial Management and Analysis, Vol.11, issue 2, July-Dec. pp. 44-62.
9. Kumar, M.P. Vijay., [2006]. First Lessons in Accounting Standards, Sixth Edition, Mumbai: Snow White Publication Pvt. Ltd. Index, pp. xvii - xviii.
10. Meena, D.D., and Nageshwar Rao [2004]. Timeliness of Corporate Reporting, The Indian Journal of Commerce, Vol. 87, No.3, July-Sept., pp. 179-185.
11. Nair, R. D., [1982]. Empirical Guidelines for Comparing International Accounting Data, Journal of International Business Studies, 13, pp. 85-98
12. Perera, M. H. B., and Mathews, M.R. [1990]. The Cultural Relativity of Accounting and International Patterns of Social Accounting, In K. Most, Advances in International Accounting, pp.216-251, London: JAI Press.
13. Rao. Rajeshwar K., and Sharma M. Subramanya., [1990]. Accounting Standards and Their Relevance to Corporate Reporting Practices in India, Paper presented in Dharwad Conference.