

## ACCOUNTING STANDARDS AND ACCOUNTING POLICIES: THE HARMONIZATION APPROACH FOR FINANCIAL REPORTING

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### ABSTRACT

*Today the entire world is becoming a single economical village multinational companies are reaching to the various parts of the world and moving out from their origination place. This is increasing their scope in the financial and economical aspect but at the same time it is also creating some compliance issues as different financial reporting frameworks are used in the different continents of the world. As we all know that a sound financial reporting structure is one of the most important factors for the economic health of any business organisation. For any sound financial reporting structure the foremost requirement is to establish a uniform accounting practices so that it becomes easy for the companies to follow the accounting practices in a uniform manner, for their different expansions of business in different countries. The major obstacle in making the uniform accounting system is the differences in the accounting frameworks used in the different countries for their financial statements. This creates a level of inefficiency in the capital market of a similar company in the different stock markets of different countries. Because of the increasing complexity of business transactions and enhanced globalisation of the stock markets one set of uniform accounting tools shall be set out. The accounting standards are undoubtedly playing a very significant role in bringing out the uniformity in different accounting practices throughout the world. Whether these accounting standards and accounting rules are truly successful in achieving uniformity and will be useful for company having its presence in different countries is a matter of consideration to every accounting standard setting body. Hence the researcher has decided to conduct and study on making harmonisation of corporate accounting practices of different nature through the use of accounting standards applicable in India. Various attempts has already been taken by various researchers to find out the effectiveness of accounting standards on making harmonisation of accounting policies in the different parts of the world but unfortunately no such effort has been taken in context of Indian accounting standards, hence this study definitely helpful in achieving the harmonisation level in accounting standards and accounting policies followed in India.*

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**Keywords:** Accounting, Financial, Harmonisation, Standards, Uniformity, Corporate, Disclosure.

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### Introduction

In the present business environment, companies are trying to comply with globalisation in their business portfolio and it must require a compliance with uniform accounting procedure which is understandable to the all kind of investors throughout the world. Various environmental factors of the whole world economy, various criteria used in the international market, existence of multinational companies and increased space of foreign direct investments creates together a kind of environment in which today's business transaction takes places and the finalisation of financial statements along with the disclosures to be made in this, requires a differently and distinctive form which requires a different

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sub discipline or a kind of harmonisation in the different accounting policies followed throughout the globe. The harmonisation of monetary, accounting and reporting policies are some of the methods for facilitation of globalisation of capital market through enhancement of investor's ability for developing an environment to take some informed business decisions regarding the investments opportunities available. Any kind of difference in the information of makers of the financial statements and the users of the financial statement will definitely impact the cost of capital. The harmonisation of accounting policies is a way which collects different information from different accounting systems and blending all of them so to create an ordinary orderly and uniformed structure with some synergetic results. The qualitative research has typically focused on various advantages and disadvantages of harmonisation and its impact on methods of setting of traditional accounting practices. For number of years an effort has been made for harmonisation of accounting standards and other international accounting organisations are also trying to set up the harmonisation standards so that the differences in financial reporting activities can be resolved.

### **Indian Accounting Standards**

In India, accounting policies and practices are very complex and innovative. The accounting does not exist in India only from the present time but it is existing from the ancient time. With the change in economic aspects and environment in the previous two decades, an attention has been diverted towards the accounting standards in ensuring the transparent financial reporting by companies. With the increased Foreign Direct Investment coming to India a considerable interest in foreign accounting principles has generated and a need of harmonisation is felt. Various initiatives taken by various international accounting bodies in the previous two decades including introduction of International Financial Reporting Standards and international Accounting Standards is appreciated for making a uniform language of business reporting in the interest of all the stakeholders, especially investors at the global level. The Institute of Chartered Accountants of India which is the primary body for setting up accounting standards in India is taking a leadership for establishing the counting standard board almost 40 years back to make an align alignment in international and Indian accounting aspects Presently accounting standards which have been issued by ICAI are in a long extended way. The accounting standards have been introduced with the object of making a harmonisation in different accounting policies and practices used in the different countries and that is why the major objective of making accounting standards is to provide the alternative accounting treatments, while preparing the financial statements especially of those organisations which have their international presence. This also helps in making the compatibility and comparability of financial statements of any company with other companies of similar industry even at the international level. The companies' act 2013 and other applicable statues in India require that financial statements of an entity must be true and fair not only in the context of Indian investors but also from the international perspective. The accounting standards are issued with the object of explaining the accounting principles and the methods of accounting to be applied in preparation of financial statements.

### **International Accounting Standards**

The International Accounting Standards and Financial Reporting Standards are providing an international capital generation and international trade. The companies which are listed in the Indian Stock Exchange and which is also having an international presence are continuously following international financial reporting standards so that their worldwide reporting can be made even in the international market by following international financial putting standards. They all have comparable, reliable and undoubtedly the transparent financial statements. The councils of the ministers in EU (European Union) have realised the advantages of international standards as approved in meeting conducted on 6<sup>th</sup> June 2002. They require that all EU companies that is European Union companies listed on a regulated stock market must prepare their accounts according to the international accounting standards.

### **Harmonization – The Key of Blending**

Harmonisation is a reconciliation of different point of view of different standards followed in the different countries subject to not existence of any conflict between the various accounting bodies. The government consistently tries to harmonise their standards followed by them at their local or domestic level along with the International Standards. Harmonisation is a blending method where we mix the practices followed in the different countries with the different financial reporting structure for accounting. Harmonisation is a process of making a standardisation, uniformity and coordination to bring all the accounting practices in the one forum. With the help of organisation and international harmony in the

different financial reporting structures can be achieved. The harmonisation of accounting principles is a process in which we try to reduce the differences in the accounting principles and practices of different nations so that the investors from the different countries can understand the financial statements prepared by any company of any country different countries where they have presence. In the process of harmonisation, steps involved include examining the accounting policies of different financial reporting frameworks and making a comparison between all of them so that the common system can be set up.

In this way compliances of all financial reporting structures can be achieved. However in this process sometimes we need to eliminate some unnecessary or not required accounting practise of any country which is not acceptable internationally. This is the way how the differences can be reduced between different accounting and reporting framework. However here it should be noted that harmonisation at the international level can be achieved only with consideration to the micro level but considering the macro levels. From the 1953 OECD has started making publications of different accounting aspects to be followed by their member countries. At the same time the global organisations of accounting has also decided to set up a system of its own so that it can enable a comparable accounting process. However in the process of harmonisation the requirement of any country and its financial reporting structure shall not be ignored altogether. The harmonisation of various monetary accounting and reporting standards facilitates the globalisation of capital market by improving and enhancing investors ability so that they can take a wise and informed decision regarding their investments in any corporate.

### **Why We Need Harmonization**

China has managed the liberalisation and because of this it has attracted a larger portion of the foreign direct investments in their country. As a result of this the information required by the organisations their managers and investors both have changed in the form of their presentation and disclosure. The major aspect which is need a consideration for the transparency is the way of making financial reporting. The transparency is also taking its shape and importance in India as India is also becoming a very significant economic power in the business world at the global level. It has opened all its borders for foreign direct investments and has allowed the privatisation for developing its infrastructure including the transportation and heavy industries. The India has always lagged with the harmonisation of its accounting standards with international accounting standards since 1993. However a continuous growth and attraction of foreign capital in the national business houses is totally depends upon the level of transparency in their financial reporting's. The Institute of Chartered Accountants of India which is a premier accounting standard setting body is continuously putting its efforts in bringing the transparency, considering the global aspect by revising their accounting standards and making them in line with international accounting practices and policies. The one important questions that comes in the head is whether international accounting standards is universally acceptable or not or it is just to create a hype that international accounting standards are better and acceptable at the world level. Because of their continuous pressure on individual countries accounting bodies to make their harmonisation is now supporting their view to accept international accounting standards as global practices but as far as the improvement in financial reporting is required to bring the Indian companies at the global level it is seriously a necessity for doing harmonisation. Almost all the authors and experts accepted the need of making a harmonisation of this accounting and auditing principles at the urgent need and it is undoubtedly acceptable that all stakeholders will be benefited by such harmonisation.

### **Advantages of Making Harmonization in Accounting Practices and Standards**

- **Growth in International Business Market:** At this point of time a lot of the variations in accounting principles have been observed including variations in auditing and financial presentations and the standards of professional in accounting and auditing field. Since accounting reports are the best way of communicating the financial figures universally, hence there is a detailed need of making harmonisation in these accounting principles to satisfy the needs of all international stakeholders. There is also a question of discussion that a standard must communicate the very typical method of communicating the all financial information and whether it is actually doing the same or not. Every part of the society such as government, the lenders, the businesses and the stakeholders need information which is more reliable and easily understandable and which helps in flowing the funds from the international market. It is quite appreciable that the finance and the treats are incongruous at the world level. In the world of international market there is a very little possibility of making an application of accounting universally investors.

- **Investors:** The harmonisation needs an increased demand from the investors. Also the investors always wish to take a position in the other countries because of investments by the international companies, so the diversification of their funds can take place. As we know that businesses are now becoming international and hence there might be an argument that the investors may not be confused because of the viability of reporting requirements and they could encounter some difficulties in making the comparisons between two companies harmonization. Hence results in the decision making based on one source of data and the selections are based on the financial data undoubtedly harmonisation will like going to help in reducing the confusions as between the financial statements, as the common human accounting policies will be followed. The fact cannot be denied that the international level of harmonisation would make financial statements comparison easy and no more adjustments will be required to make them suitable according to the country of investor.
- **Large Accounting Firms:** The other reason for which harmonisation at the international level is required is that all the international accounting firms now are expanding their operations at the global level. It will be easy for them to give their services to other countries only when the accounting standards and practices followed in other countries are similar as followed by them and as followed in their own country. The basic objective behind this movement of harmonisation of accounting policies as per the international accounting standards is the comfortability of the accountants practicing and having a plan to expand their activities beyond their country. The international accounting firms were undoubtedly worried about the increasing interest of investors beyond their own country.

### Conclusion

If we compare the international accounting standards and the Indian accounting standards we will see that there is a lot of differences, especially when they are concerned with the disclosure of accounting policies, inventory valuations, presentation of profit and loss statements, extraordinary items, depreciation accounting, disclosure for change in accounting policies and fixed assets, accounting changes in exchange rate, amalgamation, accounting for segment reporting, accounting for employees benefit, related party transactions, earning per share, recording for consolidated financial statements, accounting for taxes on income, investments in associates and intangible assets. Some differences also arise for intangible assets and contingent liabilities and contingent assets. The Indian stock market regulator which is SEBI and the standard making organisation which is ICAI has made significant changes in the financial statements presentation as far as the disclosure requirements and investors protection are concerned. The changes are made in the profit and loss statements and compliance with statutory and securities market regulations. Various other changes such as disclosure of fixed assets, development and employees benefit plans have also been made. It has also been observed that the differences also exist between the SEBI rules and various provisions of IFRS and international accounting standards. They are particularly in the area of investor's protection, disclosure requirements, presentation of economical financial statements, and takeover codes. That is why it is suggested that significant thought shall be given to make the differences by concerned authorities, considering the interest of all the stakeholders. The significant disharmony in the different accounting practices creates a lot of obstacles. The government shall put all of its efforts in making harmonisation of all of them so that the local accounting standards is not harmonised with international accounting standards only but they are also in compliance with the norms of SEBI and the government regulations. Various challenges and hurdles which could arise in the harmonisation may concern with the taxation authorities and financial institutions. Hence a consideration to their concerns shall also be given so that it could not be challenged anymore by any investor or authority. Currency volatilities which could arise due to the exchange differences and shall also be taken into picture while making harmonisation policies for harmonising Indian accounting policies, practices and standards with international accounting policies practices and standards.

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