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INDIAN ACCOUNTING STANDARDS: THE MODEL OF ACCOUNTING IN INDIA

Dr. Suresh Kumar Sharma*
Dr. S.K. Saxena**

ABSTRACT

Account is the art of recording, classifying and summarising in a significant manner and in terms of money, deals and events which are, in part at least, of a financial character, and interpreting the results thereof In its broadest sense, account is concerned with the dimension of deals, generally involving money as the medium of exchange but may also affect from trade, transformations i.e. the transformations through the process of product and events i.e. all other profitable circumstances, external and internal. Account is a developing wisdom. Unlike other physical lores, it isn't rigid in nature. A certain quantum of inflexibility is allowed in account practices. Due to modification of profitable and political programs, rapid changes in the marketable and artificial world are taking place. Thus, it's but natural that the account programs and practices should also be suitably amended to keep pace with the changes. Though, a certain quantum of inflexibility can be allowed, it doesn't mean that the account principles should be fraudulent to suit individual vagrancies and wishes. Latitude to a certain degree is admissible but it shouldn't strike at the soul of the introductory account principles. It is, thus, necessary to see that the account principles are followed in spirit. There is, therefore, a great need to standardise the account principles so that the financial statements prepared by various organisations retain the attributes of uniformity, thickness and community. Expression of account standards plays a vital part in this direction. The main ideal of the study is to estimate critically the work done in the field of account standards in India. The conception of accounting standards is fairly new in India. It's still in an evolutionary stage. Hence, a penetrative study in this field may throw light on the relative strengths and sins, which may prove to be useful.

Keywords: *Summarization, Accounting, Measurement, Transaction, Comparability, Principles, Practices.*

Introduction

The accountants in India frequently have difficulty in choosing an' ethical path'. The stakeholders have little option but to believe that the accountants are following the highest code of ethics of probity. They've to work on the supposition that the accountants aren't under any kind of constraint. Thus, it's the tax of the State to cover the accountants from being constrained into not performing their ethical duties. The accountants can also look up to their orders for protection. In India, there are two orders, both invested with statutory powers of regulations, including penalty and pullout of powers to exercise. They are the Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India. These bodies define morals to insure that their members don't display aggression or over-zealousness to dominate the organisations to achieve their particular career pretensions, but discharge their duties actually and fairly by following the account and auditing practices specified for them. The need for setting account standards cannot be over emphasised. Account standards give a frame of medication of financial statements. Account standards seek to suggest rules and criteria of account measures. On one hand, the rules and criteria cannot be rigid and on the other, they cannot permit illogical and completely advisable account measures. Expression of proper account standards, thus, is a vital step in developing account as wisdom and as a language of business. Account standards

* Associate Professor, Department of ABST, Faculty of Commerce, Seth R. N. Ruia Government College, Ramgarh Shekhawati, Sikar, Rajasthan, India.
** Associate Professor, Department of Business Administration, Faculty of Commerce, Seth RN Ruia Government College, Ramgarh Shekhawati, Sikar, Rajasthan, India.

are a standard for assessing the quality of financial statements. As a matter of fact, account standards are further than a frame; they're analogous in nature to laws. Account standards are also important in resolving the conflicts between groups of different interests. Account standards serve as an important medium in resolving the disagreeing interests. Account standards command credibility among various groups of different interests. They seek to insure that the druggies of financial statements get believable information about the organisation. Expression and perpetration of account standards, thus, achieve a special significance in the present script.

Purpose of Financial Statements

Account is the 'language of business'. The end result of account is the publication of financial statements. These financial statements may be classified into two orders general purpose and special purpose. Various disagreeing groups use the general purpose financial statements. Thus, they should strike a right balance to give necessary information to the concerned groups. However, special purpose supplementary financial statements may be prepared for use of a particular group, if necessary. It becomes empirical to consider the overall purpose of financial statements, more so the periodic reports of companies. Financial statements give a base for taking opinions and conduct by the external druggies. The periodic reports are literal in nature in as important as the financial data portrayed in the periodic reports are a part of history. Indeed also, they give a base for planning future conduct and taking opinions. They form a base for taking investment and lending opinions. The settlement of claims, similar as taxes outstanding to government, bonus outstanding to workers etc., is grounded on financial statements. Financial statements give a bird's- eye view of the progress of the organisation as well as the stewardship function of the operation. Social and council attitudes and policies are formulated on the base of information handed by the periodic reports. Matters similar as the tax structure, the balance between the private sector and the public sector, the situations of taxation, the amount of government subventions to diligence and individual companies, the quantum to be spent to cover the environment, the quantum to be allocated for consumer and social weal etc. may be told by the periodic reports.

Meaning and Purpose of Accounting Standards

Account resembles a language where some rules are definite and some are not. There are numerous areas in which difference of opinions exists about the manner of recording a particular sale. But it's anticipated that a shrewd accountant should be suitable to separate between a' good' account practice and a' bad' account practice. Just as languages evolve and change in response to the changing requirements of the times, so do the account rules. Some rules which are presently in parlance may have to be modified to suit the changing business environment. The rules and conventions of account are generally appertained to as' principles'. The term' principle' is used to communicate" a general law or rule as a companion to action, a settled ground or base of conduct or practice". Therefore, an account principle is simply a companion to action. Accounting principles don't exactly define how each business event should be recorded. There are numerous matters in account practice, which differ from enterprise to enterprise. These differences are ineluctable because a single set of rules cannot be applied to enterprises of different nature. An accountant has freedom to use his discretion to record a particular event. This freedom is to be used within the confinements of the' generally accepted account principles'. The stoner of the account statements may not know the precise meaning of a particular item unless he knows the environment. For illustration, the term' cost' has several connotations. The' cost' of an auto includes the purchase price plus cost of major repairs minus the residual value. Now, the exact cost cannot be reckoned till the auto is vended. It isn't possible to stay for a long period for catching on the cost because counting statements are to be set every time. In such a situation, an accountant is impelled to do on the base of estimates. He has to make an estimate about the anticipated life of the auto and the residual value it may cost. The delicacy of the figure of' cost' will depend upon the validity of the accountant's estimate. These estimates are private and may differ from person to person. But indeed also, a general agreement on the description of the term' cost' may be arrived at. Account principles shouldn't be nebulous and vague but should be clear and well defined so that they're widely respectable and applicable. They should be slightly enforced and incorporated by all commercial and non-corporate bodies each over the world while preparing the financial statements so that they're interpreted in an invariant fashion. This will insure that the financial statements of all the organisations retain the trait of community and trustability. But at the same time, counting principles, like principles of other physical lores, aren't rigid in nature. Account isn't an unrestricted system. It's susceptible to changes. It doesn't have a fixed set of rules. The Accountant has a fair degree of freedom in recording a particular sale taking into consideration the programs espoused by the organisation. This latitude hampers the trait of community. One organisation may borrow one principle, whereas others may borrow different principles.

But account is a constantly evolving body of knowledge. This gives birth to a number of problems. The various disagreeing groups have at least one common interest i.e. the financial statements they use and calculate upon must present a true and fair picture of the financial position without concealing any material data. Grounded on this knowledge, the different groups judge the financial position of the organisation and form their opinions about its future progress. Thus, it's imperative that the financial statements of different organisations should be harmonious and similar. Still, accountants are paid workers and this poses a serious problem. They've to follow the professional law and at the same time they're under obligation to observe the orders of their employers. Their position is veritably precarious. They're guided by the ethical standards and have to cover themselves. They're on the cornucopias of dilemma. A result is that nothing should be left to discretion and various account morals should be codified into formal laws. This won't leave any compass for manipulation indeed within the specified limits. It’s injudicious to leave the account morals to be left entirely to the request forces. In authoritarian countries, like the Mouryans in ancient India, it was considered unsafe to leave everything to' voluntary morals’.

Role of Chartered Accountants in Implementation of Accounting Standards

The Chartered Accountants indeed play a veritably vital part in the expression and perpetration of account standards. They're involved in the process of account standards right from the expression stage till the perpetration stage. At the time of formulating the account standards, the Accounting Standard Board (ASB) invites the views of the exercising Chartered Accountants (i.e. auditors). The auditors convert and encourage the enterprises within the dimension of their inspection to misbehave with the conditions of account standards while preparing financial statements. However, the auditors guide them duly by knowing their difficulty, if the enterprises encounter any difficulty in the perpetration of an account standard. However, the members of the Institute shoot their commentary to the Institute, if the account standards are complex or if they bear some modification. The ASB also takes way to revise and amend the account standards consequently. When the premonitory account standards are made obligatory, it's the tax of the auditors to insure that the applicable account standards are complied with in the medication and donation of financial statements. However, he's tax bound, while discharging his attest function, if an adjudicator notices that an enterprise under his inspection has not complied with an account standard. As per Clause (9) of Part I of the Alternate Schedule to the Chartered Accountants Act, 1949, a correctional action can be initiated against a member who, while performing his attest function, fails to qualify his report for resistance with an account standard. The forenamed clause provides that" a Chartered Accountant in practice will be supposed to be shamefaced of professional misconduct if he fails to invite attention to any material departure from a generally accepted procedure of inspection applicable to the circumstances". In malignancy of these correctional vittles, it seems that some degree of laxity does live on the part of auditors in exercising their duties while reporting on the resistance with the account standards. It's with the active participation of the members of the Institute that strict compliance with the accounting standards can be anticipated. In 1998, in the U.S., five big transnational auditors were sued by the shareholders for not reporting alleged misapprehensions and earnings of Oxford Health Plan Inc. In the present script, the request is ruled by the guests, who don't tolerate any non-sense and are in a chastising mood. Every client wants value for his money. However, the guests can drag the shamefaced, including the auditors, if deceived. It’s restrained that the vittles of the Consumer Protection Act can also be invoked against the auditors, as in case of medical interpreters. There are cases abroad of auditors being sued for careless inspection and made to pay heavy damages. Numerous auditors are paying huge insurance award to cover them. In India too, auditors of banks and companies may be sued for negligence and conspiracy. The day isn't far when the stoner guests will raise a criminating cutlet towards a careless adjudicator for business failure and losses. The main purpose of auditing is to ensure that frauds are prevented. However, the auditors should descry and report them, if they do. Now, the duties of auditors extend beyond their being the watch- tykes. They're also anticipated to help and report frauds. In the U.S. and the (J.K., it's laid down in numerous law suits that if any third party, which relies on audited accounts and suffers a loss, can file a claim against auditors. The auditors owe a tax towards all those who calculate on the financial statements and should exercise a' reasonable foresight' while performing their duties.

Conclusion

The anteceding discussion establishes that India isn't lagging before in the field of formulating world standard account standards, though the pace of progress has been slow. The council is also well apprehensive of the new winds blowing across the account- world. Suitable emendations have been made in the concerning laws to give due recognition to the accounting standards issued by the ICAI. The

Institute of Chartered Accountants of India is doing a yeoman's job in this respect. There have been emendations in the Companies Act and the Income tax Act to grease the perpetration of account standards in India. Still, it's seen that there's a lack of collaboration among the different bodies, which has rebounded in discord in the process of healthy growth and relinquishment of account standards. For total control, it's desirable that the authority should flow from a single source. In India, though the ICAI has the authority to issue account standards, it seems that it isn't consulted while making emendations in the Company Law and Income tax Law. Also, ICAI doesn't have full control over the public sector, the nationalized banking sector, then on-banking financial sector and the insurance sector. Different bodies control their own account conditioning. This results in diversified account morals for different sectors. Whereas the private sector is subordinated to strict account standards, the same standards aren't applied to other sectors of the frugality. This global surge of commercial perceptivity is now washing up on Indian props. Numerous companies are making an unequivocal commitment to commercial social responsibility in their charge, vision and value statements. They go beyond the thing of profit maximization and embody liabilities towards a broad range of stakeholders." Value- grounded business approach" is replacing the" profit- only strategy of numerous companies. However, the golden days are ahead for the Indian commercial world and nothing can stop it from getting the world- leader in trade and commerce, if this is true.

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