

CHAPTER 1

Introduction

1.1 The beginning

“Money is the most universal and most efficient system of mutual trust ever devised.”-Yuval Noah Harari, Sapiens- A brief history of mankind.

Human beings existed even before the invention of money, but their development wouldn't have gotten this far without it. The ancient human beings like hunter gatherers had no money. They hunted, gathered, and manufactured everything they needed for their living and exchanged in between them. Economy of such collectives was highly self-sufficient and economically independent. “An economy of favours and obligations doesn't work when large numbers of strangers try to co-operate.” (Sapiens: A brief history of humankind) Thus, money was introduced.

It acts as a universal medium to convert anything into anything else. Money was a revolutionary milestone in the history of evolution. “It helped to drive the development of civilization, by making it easier not just to buy and sell goods, but to pay workers in an increasing number of specialized trades—craftsmen, artists, merchants, and soldiers, to name a few. It also helped connect the world, by enabling traders to roam across continents and oceans to buy and sell goods, and investors to amass wealth.” (The Journey of Humankind, 2017) It also became possible to store money and thus lead to wealth creation. Wealth creation gradually boosted trade in the cities. Business flourished across world, and it became necessary to account for the transactions. Even though, initially, it was used to keep records of the things, later it evolved itself into a system that is used to compare between the business entities and to understand the performance of the entity itself. Eventually accounting became a source to communicate the results of the business.

Accounting is considered the language of a business. American Accounting Association (AAA) defines accounting as “the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information”.

The process of accounting begins with the recording of day-to-day transactions in a chronological manner in the books of journal. Journal is known as the primary book of bookkeeping. Later these journal entries are classified based on the nature of the transactions and posted into ledger accounts. Ledger accounts are

summarized at the end of the period and the balance in each account is used to make trial balance. Trial balance is prepared to know the accounting accuracy of the bookkeeping, i.e., whether the duality principle is being violated in any of the phases of bookkeeping. With the preparation of trial balance, bookkeeping process ends. The later process of preparing the financial statements of the company is accounting.

Till last century, the preparers of financial statements believed that, with the preparation of income statement and balance sheet, the accounting practically ends. However, the developments in the corporate world resonated in the arena of accounting also. Financial statements laid the foundations for decision making. A separate branch of accounting, management accounting evolved, solely with the aim of decision making. It was the beginning of an era. Preparation of reports became crucial as the business decisions were based on that information. Accounting keeps record of every transaction in a business and facilitates the management and other stakeholders in arriving at strategic decisions.

As Tilman. J. Fertiltla says,” Don't ever let your business get ahead of the financial side of your business. Accounting, accounting, accounting. Know your numbers.” Business decisions backed by adequate information are the key element of success today.

1.2 Corporate financial reporting

“Corporate financial reporting is the system of making corporate financial reports. These corporate financial reports are income statement, balance sheet, cash flow statement, statement of retained earnings and financial policies explanation. Corporate financial reporting may be shown at the end of month or at the end of each quarter or at the end of year.”(DEVI, 2016)

Corporate financial reporting is an essential activity for all businesses. This form of accounting should provide investors and creditors with useful information that they can employ in making lending or investment decisions. Since stockholders and lending institutions rely on income or repayment from your business to accurately run their own companies and estimate their cash flow, it's essential that your company be able to present accurate, timely information that speaks to the overall health of your company. Failure to provide accurate information can not only lead to problems of reputation; it can cause legal difficulties.

“The objective of financial reporting is to track, analyse and report your business’ income. The purpose of these reports is to examine resource usage, cash flow, business performance and the financial health of the business. This helps you and your investors make informed decisions about how to manage the business.” (ascentrik.com)

There are three main objectives of financial reporting:

- It’s important for investors to comprehend the way a company utilizes its funds for expansion and the effectiveness of its resource management. Financial statements provide birds eye view into the financial well-being of a company, aiding investors in determining if it’s a prudent investment choice. The primary objective of financial reporting is to furnish such insights to those who are interested.
- Financial reporting helps in tracing movement of funds utilised in the company. It discloses the sources and application of cash in a company. This data helps in evaluating the importance of your business, such as its profitability. Financial reporting illuminates these aspects, offering a transparent view of your company’s capacity to handle liabilities and foster future expansion.
- Financial reporting aids in trend analysis and forecasting the business’s future. By observing changes in cash flow, assets, liabilities, and equity, you can pinpoint potential enhancements and make timely adjustments to brace for forthcoming scenarios. This scrutiny also uncovers the extent of your financial strength for prospective growth endeavours.

“Financial reports adhere to a group of taxation, accounting, and legal requirements, called the International Financial Reporting Standards. This is how a business’ finances can be understood all over the world – a necessity with the increase of global companies and international shareholders.” (xero.com) Corporate financial reporting is pertinent because it offers essential information to management, as well as others with capital market interests in the business. This data is necessary for making determinations about future investments, purchases, or loans. For corporate leaders, financial reports can be compared to past data to determine how certain

decisions have impacted the lower levels and whether similar choices should be made moving forward. Also, a high-level look at the company's overall financial health is critical in determining whether to bring on or reduce staffing, make financial or economic investments, pursue mergers and acquisitions, or raise or lower prices. They can also help you to determine the liquidity of your business, which can indicate whether the company can continue "going concern," or an entity that will remain in business for the foreseeable future." (bizfluent.com)

1.3 The users of accounting information

Shareholders: Shareholders are the risk bearers of the company. They have invested their hard-earned money into the business, and they use the accounting information to analyse the risk and return of their investment. They need to understand the stability of their business.

Management: In joint stock companies, owners appoint the management to take care of the business. Hence, management is the body of members who are responsible for the decisions of the business. They use the accounting information to make strategic business decisions.

Creditors: Creditors are always using the accounting information for analysing the repayment capacity of the company. They would like to know whether their funds are safe or not. They look for the credibility information of the company.

Government: Government investigates the books of accounts for the taxation related information. Government agencies are also keen to comprehend the company's spending towards corporate social responsibility ventures.

Labor unions: They are always focussed on the information regarding remuneration to the employees. Employees with profit sharing

Customers: Customers are interested whether their product has continuance in the future also.

1.4 Evolution of International Accounting System

Development of an international system of accounting was presumed as a method to unify the diverse accounting practices existed in different countries. The decision makers were facing huge difficulties. The initial efforts were focused on harmonization of accounting practices which was expected to bring mutually

understandable, comparable, compatible accounting information around the world irrespective of the economic structures of different nations.

According to F.F. Butynets, “a system of accounting is not just a collection of interconnected elements but also a system that is interconnected with an environment within which it exists.” It can be understood that the history of international accounting standards is also the history of development of accounting system. To look back into history, even though there are multiple categorizations regarding the periods of development of accounting, the five stages of development can be identified by V. I Tkach and M.V. Tkach. They are.

Trade stage: Until 1800

Entrepreneurial stage: Up to 1900

Organizational stage: until 1950

Optimization stage: between 1950 and 1975

Strategic stage: since 1975

By the end of 19th century, countries began to formulate several laws for the legal framework of accounting. History also witnessed the formulation of several professional accounting bodies for harmonization and unification of accounting practices. These professional bodies later played an important role in the establishment of international system of accounting. Some of the professional bodies include Institute of accountants in Edinburgh and Glasgow (1853), Society of Accountants in Aberdeen (1867), Manchester Institute of accountants (1887), Scottish institute of accountants (1880), American association of public accountants (1887), Canadian institute of Chartered accountants (1902) London association of accountants (1904) etc.

In 1904, the first international congress of accountants took place in St. Louis, Missouri, USA. It had participation of accountants from countries like England, Scotland, Netherlands, and Canada. This conference is noted to be the first ever path breaking event in the history. “The main issues discussed at the congress were consolidation of accounting profession, growth of world economy, development of auditing firms, establishment of standards for calculating corporate profits” (Dennis,2004). The aim was to make the accounting information more user friendly in terms of the satisfaction of users and their needs.

Later in the 1930s, the great depression which shook the whole world led to an important milestone in the history of International Accounting. The Wall Street crash

of 1929, brought into light the weaknesses in the existing system of accounting and financial reporting. There were huge differences found even in the principles of financial reporting in various countries and among companies of the same country. The information produced by business organizations was also not ideal for further analysis and interpretations. Management found it difficult to use them for effective decision making.

This instilled the importance of idea of having an International accepted set of accounting standards and the process of harmonization of accounting systems across countries began. Professional accounting bodies were set up to re-engineer the part of accounting and financial reporting.

1.5 Timeline of the major events in the history

1950: Economic integration was main motive during the post World War II period. This period witnessed global economic integration and increases capital flows which lead to a sudden hike in foreign direct investments. The focus was given to harmonization and reducing accounting dissimilarities in existence.

1962: The American Institute of Certified Public Accountants (AICPA) conducted international congress of Accountants. Developing reporting standards for international level was first thought. The congress also focused on revamping auditing practices as well.

1964: “AICPA issued professional accounting in 25 countries- A Review of Accounting standards internationally. This is the first attempt to research accounting, auditing, and reporting standards on international level” (Zeff, 2012)

1966: A study group (Accountants International Study Group) to analyse the differences in accounting standards of United Kingdom and Canada. Their aim was to harmonize accounting and auditing practices and form a long-term strategy for creating a set of international accounting standards. It functioned for ten years and published twenty guidelines before it ceased to exist in 1977.

1967: Gerhard Mueller published International Accounting. Mueller is the father of international accounting. “His academic work spurred development of international accounting as a research field and his impact was felt both among theorists and practitioners. He promoted development of research in international accounting in two directions. First, he focused on importance of differences among international

accounting and their significance for accounting profession and businesses who take part in international trade; second, he emphasized importance of learning about differences in how accounting is taught in different educational systems.” (Flesher, 2010)

1973: IASC (International Accounting Standards Committee) is established. Henry Benson was elected as the first chairman of IASC. The first IASC standard was about transparency of accounting policy was issued in January of 1975.

1979: The Financial Accounting Standards Board (FASB) collaborated with IASC, and efforts were made to prepare an international standard.

1987: 27 International Accounting Standards were issued by IASC. International organization of securities commission joined the consultative group.

1988: FASB became a member of IASC consultative group.

1993: FASB and Canada issues a standard on Segment Reporting. Along with that, G4+1 group is formed for addressing accounting and reporting issues including, Australia, Canada, FASB, UK and New Zealand.

1994: Earnings Per Share standard is improvised to eliminate difference between FASB and IASC.

1995: A plan was introduced to compare US GAAP and IASC standards.

1998: World Bank, IMF, G7(Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) finance ministers raise need for high quality International Reporting Standards.

1999: International Accounting Standard setting- A Vision for the future is published by FASB.

2000: SEC (Securities and exchange commission) issued a concept release on International Accounting Standards.

IASC has issued 41 standards under the common name International Accounting standards as well as a conceptual framework. However, their implementation had little success because most major developed nations continued to use their own accounting standards, commonly known as Generally Accepted Accounting Principles (GAAP). Although members of IASC pledged to co-operate with the facilitated the development of IAS, ultimately they did not accept the standards as their nationally accepted standards.

2001: IASC is replaced by IASB and IASB issued IFRS. There was a fundamental change in the structure of the organization also. Its mission was re stated into; instead

of striving for harmonization of standards, the goal was stated as “convergence” of national accounting standards with international standards of financial reporting.

2002: European Union adopts International Financial reporting Standards (IFRS).

2006: FASB and IASB issues a Memorandum of Understanding (MoU) for collaboration.

After 2006, FASB and IASB have taken several efforts for convergence, and it is still going on.

1.6 Harmonization and Convergence

The words, harmonization and convergence are often used interchangeably while there are some fine line differences existing between the concepts. Harmonization is a process of increasing the compatibility of accounting practices by fixing the limits to their degree of variation.

“Harmonization carries a wider meaning than standardization although it is sometimes being used interchangeably.” (“Harmonisation of Accounting,” 2015) Harmonization can be traced at two levels: harmonization of accounting standards and harmonization of accounting practices.

Convergence is a wider term than harmonization as it envelopes the idea of developing a new set of revised standards with the help of the authorized standard setting bodies of the world. Convergence thus differs from harmonization because, it is more about building a middle way between the differences rather than eliminating the existing differences while harmonization focuses on eradicating the differences and focusing on making the standards look alike.

Harmonization is harder to achieve than convergence as different countries will be having their own economic and corporate climate and stringent policies proposed in the harmonization process may not be practicable in every country. The international conferences on financial reporting started with harmonization as a focus but later it got re-focused to the idea of convergence.

1.7 International Financial Reporting Standards (IFRS)

International Financial Reporting Standards (IFRS) is a set of accounting standards, introduced by the International Accounting Standards Board (IASB), which is gradually considered as international standard for the preparation of books of accounts. International Financial Reporting Standards (IFRS) is formulated with a view to harmonize different accounting policies and practices used in various countries. The aim of IFRS is, therefore, to reduce the accounting intricacies in the preparation of financial statements within the countries and across the countries thereby ensuring comparability of financial statements of different endeavour with a view to provide meaningful information to various users of financial statements and enable them to make the best economic decisions.

The need for a set of uniform high-quality accounting standards on an international level has long been apparent. The process of international convergence towards a set of globally accepted accounting standards started in 1973 when International Accounting Standards Committee (IASC) was formed, which in 2001 was reorganized into the International Accounting Standards Board (IASB) as seen from the timeline mentioned in 1.5. The IASB developed global standards and related interpretations that are collectively known as International Financial Reporting Standards (IFRS). Similarly, interpretation of standards is issued by Standards Interpretation Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. At present there are IAS (1 to 41 issued so far and gradually getting replaced by IFRS), IFRS (1 to 15 issued so far), IFRIC (interpretations committee) to clarify issues related to the understanding of various standards have developed – 21 statements issued so far, SIC (standing interpretations committee, replaced by IFRIC in 2002) – 8 statements are valid today.

IFRS is a set of principle-based accounting standards, and it uses fair value concepts for measurement of assets and liabilities. It provides greater transparency and understandability to the financial statements, lowers cost of capital to the countries and makes easier comparability of data across borders. It created a paradigm shift in the perspective of financial reporting. Financial reporting has become user oriented from preparer oriented. Disclosures have given more importance in IFRS to help users to have a clear view on the performance of the company. The shareholders,

as the owners of the company, are interested both in the profitability of the company and in its prospects i.e., its investment capacity to create wealth to the investors. IFRS has been structured in a fashion that helps an organization in achieving both goals.

1.8 History of Indian Accounting System

History of Indian Accounting dates to 4th century BC and the kingdom of Maurya Empire. Chanakya was the prime minister of the Emperor Chandra Gupta. He wrote the Artha shastra, which is the foundation of Indian economic administration. The book consists of 15 parts divided into 150 chapters. Chanakya recognized the importance of recording the economic transactions in assessing the economic growth. Artha shastra describes framework of basic accounting. He developed “not only bookkeeping rules but also the procedures for preparing periodic income statements and budgets and performing independent audits. He realized “Without consistent standards and precise evaluation of economic activity, resources may not be distributed effectively. Mistakes in measurement, whether unintentional or intentional, result in the misallocation of resources.”. (*Kautilya on the Scope and Methodology of Accounting, Organizational Design and the Role of Ethics in Ancient India. - Free Online Library, n.d.*)

Chanakya emphasized on the importance of ethical accounting. “one of the revolutionary acts he enforced to limit conflict of interest was to create two separate offices of Treasurer and Comptroller-Auditor, with no scope of corruption and malfeasance” (Sihag,2004). India had indigenous accounting systems even before the colonization of Britain. India was the hub international trade and we used effective accounting systems to meets the needs of both east and west worlds. However, Britain introduced their national laws in the place of our indigenous systems. They were more focused on revenue collection than meet the needs of the users of information. By the time India gained independence, the callous governance of Britain has created a chaos in the arena of financial reporting. Companies were not disclosing the financial information in the name of competition and privacy. India found this as an unhealthy practice and enacted companies act in 1956. Later a lot of amendments were brought into the act including 1969 amendment (cost audit), as well as 1971 and 1973(disclosure rules).

Companies act has always been the backbone of Indian corporate. It has been amended many times to incorporate the arising challenges in the economic environment. Investor education and protection fund was proposed in the amendment of 1999. With the scam of Sathyam computers, it was felt that Companies act is obsolete to cater the purpose for which it was constituted. A major change was brought in 2011 when the schedule VI was revised. It marked the beginning of a new era. India's convergence towards the IFRS began from there.

Standardization of accounting standards was a huge challenge before Indian Government. 1980s witnessed several steps in this manner including the introduction of Panchayati system. During this period, Gernon's conformity Index saw a harmonization score of 56%, the fifth lowest among the countries represented.

When India witnessed a balance of payments crisis in late 80s, it was decided to open the economy. India reduced the governmental interference in the business sector, opened its industries for foreign investments, and public sector institutions were privatized. Multinational corporations began to grow in India. These progressive changes called for changes in financial reporting also. But the cultural environment of India prohibited certain rules weren't conducive to their business environment and thus the adoption of IAS wasn't possible. We had our own specific economic environmental characteristics, and it was advisable to converge to IFRS rather than adopt it. However, in the initial stage, India allowed voluntary adoption of IFRS. Very few companies adopted it, and it became a need of the day to converge the existing set of standards to IFRS and the evolution process of Ind AS began.

1.9 International Generally Accepted Accounting Principles (IGAAP)

The Accounting Standards Board (ASB) is a panel that operates under the Institute of Chartered Accountants of India (ICAI). It was established in 1977. The ASB is composed of representatives from various sectors including government departments, academia, and organizations such as ASSOCHAM (The Associated Chambers of Commerce and Industry of India), CII (Confederation of Indian Industry), and FICCI (The Federation of Indian Chambers of Commerce and Industry). To date, the ASB has released 32 standards (AS).

The primary goal of accounting standards is to eliminate inconsistencies in how various accounting elements are handled and to standardize their presentation.

They aim to align the varied accounting methods used in the creation and presentation of financial statements by different reporting entities, making comparisons within and between firms easier.

The Institute of Chartered Accountants of India (ICAI) has acknowledged global issues and related developments, and as a result, they have chosen to align existing accounting standards with the International Financial Reporting Standards (IFRS). These converged standards are referred to as Indian Accounting Standards (Ind AS).

1.10 Indian Accounting Standards (Ind AS)

The need of convergence was identified in the 90s, and the journey towards Ind AS has started in 2006 when the ICAI came up with a concept paper on IFRS. But the path to Ind AS wasn't that easy. India needed comprehensive changes in companies act and the existing framework to align itself to IFRS. So, it nearly took a decade for us to reach the destination. The change was the call of the time. Now we have implemented Ind AS from the financial year of 2016-17 and have seen the new annual reports as per Ind AS. Financial statements have become investor friendly in many aspects including its disclosure aspect.

The structure of financial statements remains same while many items have been reclassified thereby rendering better transparency to the investors. India is implementing Ind AS reporting standards from the financial year 2016-17. Indian companies are going through experience a drastic change in the aspects of recognition, measurement, and disclosure regarding financial reporting. A table showing the list of Ind AS s and corresponding ASs are given below.

Table No 1.1 List of Ind AS and AS s

Description	Ind AS	AS
Preparation of financial statements	Ind AS 1	AS 1
Inventories	Ind AS 2	AS 2
Statement of cash flows	Ind AS 7	AS 3
Accounting Policies, changes in accounting estimates and others	Ind AS 8	AS 5

Events after reporting period	Ind AS 10	AS 4
Income taxes	Ind AS 12	AS 22
Property plant and equipment	Ind AS 16	AS 10 and AS 6
Leases	Ind AS 117	AS 19
Employee Benefits	Ind AS 19	AS 15
Government grants	Ind AS 20	AS 12
Effects on changes in foreign exchange rates	Ind AS 21	AS 11
Borrowing costs	Ind AS 23	AS 16
Related party disclosures	Ind AS 24	AS 18
Separate financial statements	Ind AS 27	AS 21
Investments in associates and joint ventures	Ind AS 28	AS 23 and AS 27
Financial statements in hyperinflationary economies	Ind AS 29	-
Financial Instruments: Presentation	Ind AS 32	AS 31
Earnings per Share	Ind AS 33	AS 20
Interim Financial Reporting	Ind AS 34	AS 25
Impairment of Assets	Ind AS 36	AS 28
Provisions, Contingent Liabilities and Contingent Assets	Ind AS 37	AS 29
Intangible Assets	Ind AS 38	AS 26
Investment Property	Ind AS 40	AS 13
Agriculture	Ind AS 41	-
First-time Adoption of Indian Accounting Standards	Ind AS 101	-
Share-based Payments	Ind AS 102	-
Business Combinations	Ind AS 103	AS 14
Insurance Contracts	Ind AS 104	-
Non-current Assets Held for Sale and Discontinued Operations	Ind AS 105	AS 24
Exploration for and Evaluation of Mineral Resources	Ind AS 106	-

Financial Instruments: Disclosures	Ind AS 107	AS 32
Operating Segments	Ind AS 108	AS 17
Financial Instruments	Ind AS 109	AS 30
Consolidated Financial Statements	Ind AS 110	AS 21
Joint Arrangements	Ind AS 111	AS 27
Disclosure of Interests in Other Entities	Ind AS 112	AS 21, AS 23 and AS 27
Fair Value Measurement	Ind AS 113	-
Revenue from contracts with customers	Ind AS 115	AS 9 and 7

(Source: www.icaai.org)

“The implementation of Ind AS has been done in phases.

Obligation to comply with Indian Accounting Standards (Ind AS). –

(1) Companies and their auditors are required to adhere to the Indian Accounting Standards (Ind AS) outlined in the Annexure to these rules when preparing their financial statements and conducting audits, respectively. The compliance is expected in the following ways:

(i) Any company has the option to follow the Indian Accounting Standards (Ind AS) for financial statements for accounting periods starting on or after April 1, 2015, with comparative data for the periods ending on March 31, 2015, or later. This is considered voluntary adoption. (ii) Certain companies are required to comply with the Indian Accounting Standards (Ind AS) for accounting periods starting on or after April 1, 2016, with comparative data for the periods ending on March 31, 2016, or later.

companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more.

- (a) companies other than those covered by sub-clause (a) of clause (ii) of sub- rule (1) and having net worth of rupees five hundred crore or more.
- (b) holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub- rule (1) and sub-clause (b) of clause (ii) of sub- rule (1) and

(iii) the following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April 2017, with the comparatives for the periods ending on 31st March 2017, or thereafter, namely: -

(a) companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees five hundred crore.

(b) companies other than those covered in clause (ii) of sub- rule (1) and sub-clause (a) of clause (iii) of sub-rule (1), that is, unlisted companies having net worth of rupees two hundred and fifty crore or more but less than rupees five hundred crore.

(c) holding, subsidiary, joint venture or associate companies of companies covered under sub-clause (a) of clause (iii) of sub- rule (1) and sub-clause (b) of clause (iii) of sub- rule (1), as the case may be” (*Notification_20022015.Pdf*, n.d.)

1.11 Reasons behind Ind AS adoption

India has been a closed economy since independence during the Nehruvian era. The country focused on self-sufficiency and the leaders then believed that the Indian companies were not enough equipped for competition with foreign companies. India imposed heavy restrictions in overseas trade and most of the sectors in the economy were under government control. Though this decision helped India in the initial years, it led to monopoly in several sectors. Also, the balance of payments hit an all-time low.

Thus in 1991, the then Finance Minister Dr. Man Mohan Singh initiated to open up the economy. This policy was called the LPG policy, including liberalization of government restrictions, privatization of government owned sectors, thereby leading to a globalized concept. The industrial sector witnessed a sea change after this. Many new companies including foreign companies were established in the country and as years passed, many domestic companies established their branch in foreign countries. This brought about differences in accounting also. There arose a pushing need to standardize the financial statements. The major reasons for the convergence towards Ind AS can be summarized as follows:

1.11.1 Global presence of companies

As the restrictions over foreign trade were lifted, domestic companies found it as a big opportunity to branch across the world. At the same time, many foreign companies indulged in joint ventures, collaborations, and tie-ups with Indian companies. Some foreign companies even started their branches here. Each company searching for newer and newer markets and increasing its customer base to fight the cut-throat competition, made a global presence in general. This is one of the core reasons for the standardization of accounting standards.

1.11.2 International investors

When the companies went global, its customer base got widened. There were investors from across the world. And the companies were forced to prepare financial statements in such a manner so that, all their investors including international investors can comprehend the information with much ease. It also initiated a need for a common accounting standard.

1.11.3 Multiple reporting systems

The companies who were global had to follow multiple reporting systems according to each country they function in. Thus, companies had to prepare financial statements according to different accounting standards. This was a tedious task for companies. When the number of global companies increased, the government was also forced to think about a common and global accounting standard.

1.12 Advantages of Ind AS Implementation

“The adoption of International Financial Reporting Standards (IFRS) is believed to enhance comprehension, reduce companies’ capital costs as they can secure funds from foreign markets, and increase stock prices due to increased investor confidence and transparent information. It simplifies the regulation of securities markets, allows for easier comparison of financial information across countries, and boosts the credibility of domestic markets for foreign capital providers. It also

promotes the international mobility of professionals across national borders. For multinational corporations, it assists in meeting the disclosure requirements of global stock exchanges..”(Preview-of-the-Jurisdictional-Adoption-Guide.Pdf, n.d.)

1.12.1 Focus on investors.

The accuracy in financial reporting is improved by the disclosure mandates of the Indian Accounting Standards (Ind AS), providing users with a more transparent view of financial statements. These standards, by aligning with global reporting norms, make international mergers and acquisitions more seamless for investors. This combined impact could potentially elevate stock prices and make firms more attractive for fresh investments.

1.12.2 Comparability

Ind AS enhances the ability to compare financial statements, as it ensures all companies adhere to the same standards. This uniformity ultimately simplifies the process for stakeholders to contrast the financial statements of different businesses.

1.12.3 Standardization of Accounting and Financial Reporting

Standardization of accounting and financial reporting can be achieved by converging with IFRS. This is believed to improve the comparability of financial statements across the world.

1.12.4 Better access to foreign capital markets and investments

Numerous businesses in Europe and around the globe have already established a substantial foundation for the adoption of the International Financial Reporting Standards (IFRS). This adoption enhances a company’s entry into international markets, as their financial statements are prepared according to consistent reporting standards.

The primary motivation for transitioning from the previously utilized Indian GAAP to the new Ind AS is to enhance the global comparability of financial statements, thereby attracting more investor attention. This goal has largely been

realized and continues to be pursued as an increasing number of countries worldwide are shifting from their national accounting standards to adopt IFRS.

1.13 Challenges of Ind AS implementation

The implementation of IFRS complied standards in India will have a significant impact on the key performance metrics requiring thoughtful communication with the Board of Directors, Shareholders, and other stake holders. Internally Ind AS implementation can have a wide-ranging impact on a company's processes, systems, controls, corporate taxes and also contractual arrangements.

1.13.1 Fair value accounting

One of the important changes is the introduction of Fair Value Accounting (Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.) as a measurement criterion. Companies can opt for fair value accounting in the place of historic accounting. It's true that IFRS do reflect the true scenario of the business. At the same time fair value accounting increases the volatility of the financial statements. It has caused immense controversies during the time of economic slowdown in 2008(The subprime meltdown was the sharp increase in high-risk mortgages that went into default beginning in 2007, contributing to the most severe recession in decades) which shook the world economy.

1.13.2 Taxation

Ind AS brings in changes in calculation of deferred tax. The existing tax laws should be aligned to these changes. Even though ICDS (Income Computation and Disclosure Standards) has been framed, there is still vagueness and ambiguity regarding the taxation issues. It is going to be a huge challenge to the law makers and regulators to align taxation laws with Ind AS.

1.13.3 Training

Another hurdle was the unavailability of academicians and practitioners who are expert in Ind AS. Even though there are multiple online courses available online there exists a huge demand for experts in Ind AS.

1.13.4 Changes in regulations

Implementation of Ind AS is not just an accounting change. It affects a lot more area than imagined. SEBI (The Securities and Exchange Board) and other regulatory bodies have to align themselves with the changes brought in by the implementation of Ind AS. Along with the implementation of GST (Goods and Service Tax) and other newer laws, it has become a huge responsibility of the governing bodies to align itself to the changes.

1.14 Need for the Study

The introduction of Ind AS has marked quite a stir in the Indian Corporate and as a researcher it is interesting to understand the recent developments in financial reporting. This thesis is an attempt to understand the implications of Ind AS by analysing selected companies in India from three different industries. The study spans over a period of fourteen years where the first ten years are under the regime of AS and the next four years under Ind AS. Ind AS is still evolving and everyday newer changes have been brought into the subject, it is almost impossible to analyse the implications of Ind as in an empirical way, this study is more in a hypothetical nature by considering a few selected Indian accounting standards. The design of study is elaborated in the chapter 3, research methodology.

1.15 Chapters of the thesis

Chapter 1: Introduction- The chapter gives a broad history of the evolution of accounting as a system- The major events in the history of accounting standards, history of Indian accounting- the reasons behind Ind AS adoption- advantages and disadvantages of the adoption- the challenges behind the adoption.

Chapter 2: Review of literature- foreign studies conducted on IFRS- Studies conducted in India regarding IFRS- studies conducted in India regarding Ind AS and AS.

Chapter 3: Research Methodology- research problem- objectives- research design- hypotheses- tools and techniques used (financial and statistical)

Chapter 4: Overview of Indian industry- automobile industry-pharmaceutical industry- Information technology- Profile of the selected companies.

Chapter 5: The impact of Accounting Standards on Financial Reporting - General impact – Impact in disclosure – Impact in compliance

Chapter 6: Analysis of data – Impact of Ind AS on Financial Reporting - Study of selected variables under AS and Ind AS - Study of various ratios under AS and Ind AS – Study of Impact of Ind AS on Financial Reporting using various indices - study of conservatism in accounting standards, level of harmonization of accounting policies, disclosure quality of financial reporting - Study of financial performance before and after convergence to Ind AS – Pre and Post period analysis of Ind AS implementation- Correlation analysis

Chapter 7: Findings, Conclusion and Suggestions

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