CHAPTER 1

INTRODUCTION

Accounting is an information science used to collect, classify and manipulate financial data for organizations and individuals. Accounting is instrumental within organizations as a means of determining financial stability.

The history of accounting refers to around seven thousand years ago. It was initiated in Mesopotamia, but first systematic financial records were introduced by “Luca Pacioli” in 1494 described as double-entry accounting system. For the first time American Institute of Certified Public Accountants (AICPA) took up responsibility for setting accounting standards during the movement toward setting accounting standards process till the year 1973, when the Financial Accounting Standards Board (FASB) was established in U.S and offered Generally Accepted Accounting Principles (GAAP) and in other hand International Accounting Standards Committee (IASC), located in London, England offered International Accounting Standards “IAS” from 1973 to 2001 forty one International Accounting Standards (IAS) issued by (IASC). In 2001 International Accounting Standards Committee changed to International Accounting Standards Board (IASB).

International Financial Reporting Standards (IFRS) are a set of accounting standards, introduced by the International Accounting Standards Board (IASB). That is gradually considered as international standard for the preparation of books of account. International Financial Reporting Standards (IFRS) is formulated with a view to harmonize different accounting policies and practices in use in various countries. The objective of accounting standards is, therefore, to reduce the accounting methods in the preparation of financial statement within the countries, thereby ensuring
comparability of financial statement of different endeavor with a view to provide meaningful statement to various users of financial statements to enable them to make the best economic decisions.

“The need for a global set of uniform high-quality accounting standards has long been apparent. The process of international convergence towards a global set of accounting standards started in 1973 when 16 professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and the United States agreed to form the International Accounting Standards Committee (IASC), which in 2001 was reorganized into the International Accounting Standards Board (IASB). The IASB develops global standards and related interpretations that are collectively known as International Financial Reporting Standards.”(Secretariat, 2006)

“IFRS are a set of accounting standards promulgated by the International Accounting Standards Board (IASB), international standard-setting body based in London. The IASB places emphasis on developing standards based on sound, clearly stated principles, from which interpretation is necessary (sometimes referred to as principles-based standards). This contrasts with sets of standards, like U.S. generally accepted accounting principles (GAAP), the national accounting standards of the United States, which contain significantly more application guidance. These standards are sometimes referred to as rules-based standards, but that is really a misnomer as U.S. standards also are based on principles; they just contain more application guidance. IFRS generally do not provide bright lines when distinguishing among circumstances in which different accounting requirements are specified. This reduces the chances of structuring transactions to achieve particular accounting effects.”(Ankarath, Mehta, Ghosh, & Alkafaji, 2010)
1.1 Statement of the Problem

The board of the Institute of Chartered Accountants of India (ICAI) in May 2006 had a meeting regarding adoption of IFRS in listed companies and large entities which are having large amount of turnovers. This meeting was 259th meeting of ICAI. The member of the board expected some of IFRS advantages like saving in cost of capital in Indian companies increasing and investing their capital in abroad and their use of advantages of saving in expenses because they are not going to prepare different financial statements, they expect to show better image of Indian companies and the finance and accounting profession in the world so it may provide better opportunities for Indian expert people in accounting and other jobs in abroad, in meeting the council of ICAI also discussed about issues and challenges with corresponding IFRSs and proposed Indian accounting standards. Researcher identified problems influence in legal, social, economic and institutional factors for International Financial Reporting Standards’ convergence in India.

The key concern lies in convergence with International Financial Reporting Standards in India. Hence the research problem for the present study is entitled “Problems of International Financial Reporting Standards’ Convergence in India”.

1.2 Significance of the Study

The rationale for undertaking this study is because there has been limited published research on International Financial Reporting Standards’ convergence in India and the expected contribution of the study was to provide an informative analysis about convergence with IFRS in India. This study, explored the experiences of other countries, which have successfully implemented IFRS in their countries. International Financial Reporting Standards (IFRS) convergence, in recent years, has gained
momentum all over the world. The capital markets have become increasingly global in nature. India being one of the key global players, convergence to IFRS will enable Indian entities to have access to international capital markets without having to go through the cumbersome conversion and filing process. It will lower the cost of raising funds, reduce accountants' fees and enable faster access to all major capital markets. Furthermore, it will facilitate companies to set targets and milestones based on a global business environment, rather than an inward perspective.

There are conceptual differences between accounting standards in India (AS) and IFRS. Keeping in view the extent of gap between accounting standards in India (AS), Ind-AS and the corresponding IFRSs, convergence process would need careful handling. By introducing a new company law, the Indian Government has initiated the process to amend the legal and regulatory framework. The convergence would involve, impact assessment, revisiting accounting policies and thereafter changing the accounting & operational systems in order to be fully compliant with IFRS. The result of this study, may contribute to strengthen the existing knowledge about convergence with IFRS in India.

1.3 Objectives of the Study

The main objectives of this study are:

I. To study International Financial Reporting Standards’ implementation among IASB member countries.

II. To study the problems influence in legal, social, economic and institutional factors for International Financial Reporting Standards’ convergence in India.
III. To examine the problems of International Financial Reporting Standards’ convergence from user’s and preparer’s perspectives.

IV. To analyse the difference in recognition, measurement and disclosure elements of financial statements between the proposed and current Indian Accounting Standards and International Financial Reporting Standards.

1.4 Hypotheses of the Study

The following hypotheses were formulated for testing this study:

I. **Hypothesis for Objective One**

   H1: The degree of International Financial Reporting Standards’ implementation among IFRS adopting countries is more than 1.00 in scale of 2.00.

   H2: There exist differences in implementation factors of International Financial Reporting Standards among IFRS adopting countries.

   H3: The degree of International Financial Reporting Standards’ implementation among IFRS converging countries is more than 0.50 in scale of 2.00.

   H4: There exist differences in implementation factors of International Financial Reporting Standards among IFRS converging countries.

   H5: The degree of International Financial Reporting Standards’ implementation among IFRS non-adopting countries is not more than 0.15 in scale of 2.00.

   H6: There exist differences in implementation factors of International Financial Reporting Standards among IFRS non-adopting countries.

   H7: There exist differences in International Financial Reporting Standards’ implementation among IASB member countries.
H8: There exist differences in implementation factors of International Financial Reporting Standards among IASB member countries.

II. **Hypothesis for Objective Two**

H1: International Financial Reporting Standards’ implementation process is affected by legal factors in India.

H2: International Financial Reporting Standards’ implementation process is affected by social factors in India.

H3: International Financial Reporting Standards’ implementation process is affected by economic factors in India.

H4: International Financial Reporting Standards’ implementation process is affected by institutional factors in India.

III. **Hypothesis for Objective Three**

H1: From user’s perspective difficulties exist in International Financial Reporting Standards’ convergence in India.

H2: From preparer’s perspectives difficulties exist in International Financial Reporting Standards’ convergence in India.

IV. **Hypothesis for Objective Four**

H1: There are differences in recognition, measurement and disclosure of elements of financial statement in proposed Indian Accounting Standards and International Financial Reporting Standards.

H2: There are differences in recognition, measurement and disclosure of elements of financial statement in Indian GAAP and International Financial Reporting Standards.
1.5 Research Methodology

The researcher accessed the Internet and searched for these terms: Accounting Standards, International Accounting Standards, International Financial Reporting Standards and Generally Accepted Accounting Principles. Based upon them, each relevant item was read and reviewed for its contribution to the research subject.

1.5.1 Research Design

Research design indicates a plan of action to be carried out in connection with a proposed research work. The process of research design includes the selection of the research problem, the presentation of the problem, the formulation of hypotheses, conceptual clarity, methodology, and data collection, testing of the hypotheses, interpretation and presentation of findings.

The study carried out with four different segregate based on the objectives of study. Each segregate has different hypothesis has been designed and on that basis data were collected and analysed.

**Fig.1.1 Introduction to Phases of the Study**
The sample for this study was segregated into four phases as seen in figure Fig.1.1, first phase refers to IASB member countries, second phase deals with problems influence in legal, social, economic and institutional factors for International Financial Reporting Standards’ convergence in India. Third phase shows problems of International Financial Reporting Standards’ convergence from user’s and preparer’s prospective and finally fourth phase refers to difference in recognition, measurement and disclosure elements of financial statements between the proposed and current Indian Accounting Standards and International Financial Reporting Standards. Both primary and secondary data have been used in this study.

Fig.1.2 Phases of the Sampling
First Phase of the Study

(a) Population of IASB Member Countries: The Population of 123 IASB member countries are universe. It is segregated this in to three parts adopting countries, converging countries and non adopting countries .These data is given directly in IASB web site.

(b) The Sample of IASB Member Countries: According to Morgan’s table, minimum sample should be 93 countries and based on that theory. The sample of 100 countries has been selected for this study in three categories. The sample of 49 countries in adoption sample of 41 countries in convergence process and sample of 10 non-adopted countries.

Table 1.1 Sample of IASB Member Countries.

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>IASB member countries</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Converging Countries</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>2.</td>
<td>Adoption Countries</td>
<td>49</td>
<td>49</td>
</tr>
<tr>
<td>3.</td>
<td>Non Adoption Countries</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100</td>
<td>100%</td>
</tr>
</tbody>
</table>

(Source: Survey Data Extracted from IASB Website)

1.5.2 Second Phase of the Study, Individual Respondent (Stakeholders).

Second phase of the study covered the problems influence in legal, social, economic and institutional factors for International Financial Reporting Standards’ convergence in India. In this phase of the study, primary data has been used based on Dillman’s method and sample of 384 stakeholders has been selected out of 412.collected questionnaire according to Morgan’s table, the sample taken for the study by applying convenience sampling method.
Table 1.2 Sample of Stakeholders.

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Individual Respondent (stakeholders)</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Accountant</td>
<td>65</td>
<td>16.93</td>
</tr>
<tr>
<td>2.</td>
<td>Assistant Tax Manager</td>
<td>26</td>
<td>6.77</td>
</tr>
<tr>
<td>3.</td>
<td>Assistant Accounts Officer</td>
<td>56</td>
<td>14.58</td>
</tr>
<tr>
<td>4.</td>
<td>Assistant Budget Officer</td>
<td>3</td>
<td>0.78</td>
</tr>
<tr>
<td>5.</td>
<td>Assistant Budget Programmer</td>
<td>1</td>
<td>0.26</td>
</tr>
<tr>
<td>6.</td>
<td>Budget Officer</td>
<td>8</td>
<td>2.08</td>
</tr>
<tr>
<td>7.</td>
<td>Charter Accountant</td>
<td>28</td>
<td>7.29</td>
</tr>
<tr>
<td>8.</td>
<td>Chief Finance Officer</td>
<td>20</td>
<td>5.21</td>
</tr>
<tr>
<td>9.</td>
<td>Direct Tax Deputy Manager</td>
<td>2</td>
<td>0.52</td>
</tr>
<tr>
<td>10.</td>
<td>Finance Manager</td>
<td>18</td>
<td>4.69</td>
</tr>
<tr>
<td>11.</td>
<td>Finance Officer</td>
<td>87</td>
<td>22.66</td>
</tr>
<tr>
<td>12.</td>
<td>Finance Supervisor</td>
<td>9</td>
<td>2.34</td>
</tr>
<tr>
<td>13.</td>
<td>Joint Secretary</td>
<td>1</td>
<td>0.26</td>
</tr>
<tr>
<td>14.</td>
<td>Superintendent</td>
<td>1</td>
<td>0.26</td>
</tr>
<tr>
<td>15.</td>
<td>Tax Consultant</td>
<td>31</td>
<td>8.07</td>
</tr>
<tr>
<td>16.</td>
<td>Tax Manager</td>
<td>28</td>
<td>7.29</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>384</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

(Source: Survey Data)

1.5.3 Third Phase of the Study, Individual Respondent (Users and Preparers).

To examine the problems of International Financial Reporting Standards’ convergence from user’s and preparer’s prospective primary data has been used based on Dillman’s method. Sample of 385 members consist of 200 preparers and 185 users
has been collected according to Morgan’s table. The sample selected for this study by applying convenience sampling method.

Table 1.3 Samples of Users and Preparers.

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Individual Respondents (Users and Preparers)</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Preparers</td>
<td>200</td>
<td>52</td>
</tr>
<tr>
<td>2.</td>
<td>Users</td>
<td>185</td>
<td>48</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>385</td>
<td>100%</td>
</tr>
</tbody>
</table>

(Source: Survey Data)

1.5.4 Fourth Phase of the Study.

To analyse the difference in recognition, measurement and disclosure elements of financial statements between the proposed and current Indian Accounting Standards and International Financial Reporting Standards secondary data has been used and accounting standards was directly given in ICAI and IFRS web site.

1.5.5 Research Instrument:

In this research both primary and secondary data has been used. Four different questionnaires, designed for the purpose of collecting both primary and secondary data according to research objectives. The first questionnaire, designed to collect information from IASB website, study International Financial Reporting Standards’ implementation among IASB member countries. Second and third questionnaires have been designed for user’s and preparer’s respectively to examine the problems of International Financial Reporting Standards’ convergence from user’s and preparer’s prospective. Forth questionnaire has been designed for study the problems influence
in legal, social, economic and institutional factors for International Financial Reporting Standards’ convergence in India.

1.6 Limitations of the Study

There are number of limitations in this study. The first one is the lack of previous empirical study related to IFRS in India in one hand and non mandatory use of IFRS by Indian companies on other hand. According to ICAI there would be three phase in convergence process in India. There are: Phase I (Companies moving from April 1, 2011), Phase II (Companies moving from April 1, 2013 and Phase III (Companies moving from April 1, 2014). But unfortunately, it did not happen in India on given time schedule and only a few companies voluntarily start to prepare their books of account. So there is lack of annual report for compression between Indian GAAP and IFRS as well as Ind-AS and IFRS.

1.7 Outline of the Thesis

In the introduction chapter: the researcher problem is identified, the objectives of study are stated, the hypotheses are formulated, the methodology adopted is described. The contributions of the study to practice and research are summarized and finally the limitation of the study are addressed.

Chapter two reviews the relevant literature on International Financial Reporting Standards both in India and foreign countries. It includes practices and implementation of International Financial Reporting Standards in other countries as well as impact of converging or adopting of International Financial Reporting Standards.
Chapter three deals with the key definition of International Financial Reporting Standards, the concept, structure and implementation process of International Financial Reporting Standards.

The fourth chapter describes the evaluation of International Financial Reporting Standards around the world and in India.

The fifth chapter explains research methodology of thesis in this chapter, sampling method has been explained for both primary and secondary data as well as in this chapter discuss about content analysis and descriptive statistics of collected data.

Chapter six deals with the analysis of collected data and this chapter consist of four main segregates. Each segregate covers with analysis of an objective and its related hypothesis.

Chapter seven contains the conclusion. It consists of major findings of this study, major recommendation of the study and finally giving suggestion for future study.
References:
