Chapter 11
Conclusions, Problems and Recommendations

11.1 Introduction

The present study has analyzed the financial statements of selected companies with special reference to impact on reporting of large scale companies due to development of Accounting Standards.

Taking into account, the need of the hour, Accounting Standards Board (ASB) also tries to adopt International Accounting Standards/International Financial Reporting Standards. The Board is continuously issuing accounting standards in various areas as applicable to business houses. At the same time, it also revise the existing Accounting Standards as per the need of changing scenario. So far the Accounting Standards Board has issued 32 Accounting Standards. Many of these Accounting Standards are mandatory in nature and are to be followed while preparing and issuing Financial Statements by the business houses. Ensuring the compliance is the responsibility of the management of the enterprise.

At the same time, auditors have to confirm that all mandatory Accounting Standards are followed by the enterprise when he carries out the attest function. In last 7-8 Years the number of Accounting Standards has increased significantly and accordingly, it has also affected the preparation of financial statements by the companies. There are significant changes in reporting formats of financial statements of Companies as well in disclosure of policies. Accordingly, Researcher has decided to study in detail the development of Accounting Standards and its impact on preparation and reporting of financial statements of certain selected Companies in Nashik.

While studying the topic the researcher has come across certain problems and has also drawn some conclusions which are given below:-
11.2 Problems

The study was all about the development of Accounting Standards and its impact on Financial Reporting of Large Scale Companies. It is observed that by and large all such companies have implemented all the applicable AS and are complying with the Provisions of the AS. They have developed systems so that their financial reporting is as per the provisions of AS. But there are certain problems with respect to implementation and compliance of AS. They can be listed as:-

1. Small Entities where volume of transactions is on lower side or the organizations which cannot hire out the services of a professional accountant do not follow AS. Similarly as the duty is cast on the auditors to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit, the compliance is verified only in cases covered by audit. In short, in case of firms or business organizations where audit is not applicable, there is no machinery to check whether such organizations have complied with AS in the preparation of their financial statements. In view of above discussion, there should be some relaxation to unorganized sector, to small and medium sized firms as well organizations having low turnover.

2. It is also seen that normally unorganized sector units like Proprietorships, Partnerships, HUFs etc. do not comply with the provisions of Accounting Standards. Either these types of small organizations should be given exemption or there should be some threshold limit of turnover or some other financial parameters for exemption of compliance of AS. Similarly, there is need of separate set of Accounting Standards for Proprietorships, Partnerships, HUFs, AOPs and Co-operative Societies which will be simpler and easy to implement.

3. Compliance of AS has to be done by the Business Organizations. But it needs expertise or professional knowledge in this field. So it is observed that many large units also have not personnel having much of expertise and so in normal practice, they are not complying with the provisions of
AS. But as the duty is cast on the auditors to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit, the compliance is verified only at the time of audit being carried out and if accounts are not AS compliant either they are regularized under the instructions and observations of the auditor or otherwise, auditor has to mention the fact of non-compliance in his report which gives adverse message to the readers of the financial statements. Instead of that, there should be some statutory provisions by which the business organizations should implement and comply with the provisions of AS on their own. Some statutory penalizing provisions should be enacted so that non-complying units will have to implement and comply with AS at the earliest.

In this regard there is a welcome move. A panel appointed by the Securities Exchange Board of India, has cleared a proposal that makes it obligatory for the listed companies to restate their financial statements if their auditor comes up with adverse comments i.e audit qualifications. The decision, if endorsed by the SEBI board, will give the stock exchanges an overarching authority to call for restatement of the company’s accounts. The chief executive officer or chief financial officer of a company will bear the cost of the fresh audit. This will ensure that those responsible for the mistake pay for the folly and not the shareholders. The Committee on Disclosures and Accounting Standards recommended that stock exchanges be authorised to ‘prima-facie’ act on any ‘material’ qualification made by an auditor to seek a restatement of the company’s accounts. The proposal, if accepted, will provide auditors a final say on a company’s accounts as compared to the current practice of making a note of their qualified remarks. As per the proposal, while filing their annual reports companies will have to submit a declaration before the exchange giving details about the audit qualifications, if any. The stock exchange can then seek further inputs from the company and the auditor. Based on the information, the stock exchange will have to decide if the audit qualifications raised are
‘material’. The exchange can then forward the case to SEBI. The regulator will discuss the seriousness of the qualifications with the Institute of Chartered Accountants of India before ordering the company to restate its accounts. The committee has defined a material qualification as one, which if corrected, may influence the decisions of the users of the financial statements. While considering the nature of qualification, aspects on corporate governance and impact on future results will be considered. As per the draft report, the cost of preparing, auditing and distributing the restated accounts will be borne by the CEO/CFO of the company. In most developed capital markets, an audit qualification is looked at seriously. SEBI is trying to instill the same discipline in India. In the long run it will make financial statements of Indian entities more robust and reliable and will strongly boost investor confidence in Indian stock markets.

4. Accounting Standards Interpretation and implementation as well as compliance need expertise on the subject. Considering the number of business organizations and mandatory nature of Accounting Standards, required number of manpower is not qualified. Considering this fact, training of accounting personnel working for industry and business is must. But right now there are not such training facilities available to large number of accountants’ fraternity. The apex body ICAI along with Government, Government Bodies, Chambers of Trade and Commerce, Industrial Associations should establish machinery to provide training facilities to the accounting executives and employees directly carrying on the accounting job which will help to implement the applicable AS in maximum number of business organizations.

### 11.3 Testing of hypothesis

The research work started with the following hypothesis:-

i. Accounting Standards play very important role in financial reporting of Big Companies.
ii. The Multinational Companies have to make appropriate changes in their financial reporting and disclosures due to Accounting Standards.

The statements of hypothesis made before starting of actual research process have been tested on the basis of data collected and as described in earlier chapters.

The observations are as follows:-

i. **Accounting Standards play very important role in financial reporting of Big Companies.**

   This hypothesis is proved. During the period covered by this study, it is observed that 4 out of 5 companies have complied with the Accounting Standards to the maximum possible extent. The annual reports of all these companies prove the same and compliance with respect to accounting policies is disclosed by the way of separate annexure of Accounting Policies which is annexed to the Financial Statements of every year. It can also be said that the accounting standards are the pillars for preparation and presentation of Public Limited Companies and Listed Companies. When there is non-compliance w.r.t. any of the accounting standard, the auditors qualify his report which is also evident from the Audit Report of one of the companies selected for study. The qualifications are also quantified and the report is given subject to the comments of the auditors on such specific non-compliances. This clearly proves important role of Accounting Standards in Financial Reporting of Big Companies.

ii. **The Multinational Companies have to make appropriate changes in their financial reporting and disclosures due to Accounting Standards.**

   This statement of hypothesis is also proved. The development of Accounting Standards is witnessed in recent past. The reports studied during the research gives the clear idea of such development and also
the effect of introduction of newly introduced Accounting Standards. The impact of accounting standard and calculation thereof is also attached in notes to accounts. All the accounting policies of the company and compliance of accounting standards are annexed to the financial statements of every company. Whenever there is any amendment to existing accounting standard and introduction of new accounting standard, all the companies make appropriate changes in their accounting policy and accordingly, disclosures are also changed which are attached to the financial statements.

11.4 Topics for further Research

Researcher has studied the development of AS and its impact of financial reporting. But while carrying out the work, the researcher identified the following potential research areas:-

1. We have got uniform set of AS for all types of business organizations irrespective of Volume and form of organizations. So there is need of research in particular to verify whether separate AS can be issued considering the volume or form of organization.

2. Now in near future, Accounting Standards may be superseded by International Financial Reporting Standards. Considering the fact, following are topics suggested for further research:-
   - Adoption of IFRS in Indian Environment
   - Switchover to IFRS from existing IAS
   - Changes to be made by business entities in reporting according to new rules
   - Treatment of various AS topics in IFRS

11.5 Recommendations

While carrying out the research work, the researcher has gone through the financial statements of large scale units. But considering the applicability to all
business organizations, researcher feels following recommendations will be useful in this area:-

1. Accounting Standards play a very vital role in the preparation and presentation of Financial Statements. But as the standards set and issued are applicable for all types of business organizations, they cannot be implemented in different situations. Every business has some particular activity and there are different situations in different types of business. Therefore, uniform AS for all types of Business Organizations create complications while implementation of the same. Therefore, **AS should not be uniform for all.** Instead of that there should be different sets for Small and Medium Sized Entities and for Large Scale Units. Similarly, the discrimination can be done on the basis of form of organization, type of activity etc.

2. Small business organizations like Proprietorships, Partnerships, HUFs etc. do not comply with the provisions of Accounting Standards. Either these types of small organizations should be given exemption or there should be some threshold limit of turnover or some other financial parameters for exemption of compliance of AS. Similarly, there is need of separate set of Accounting Standards for Proprietorships, Partnerships, HUFs, AOPs and Co-operative Societies which will be simpler and easy to implement and will not need much professional expertise which is not available with such organisations.

3. The ASB is in continuous process of development of new AS as well revising the existing AS. It has done very remarkable job by issuing AS on various issues relating to Accounting. Many of the AS are revised as per the changed situations or requirements. There are certain provisions in Income Tax Act and Companies Act. But the AS prescribed by both the statutes are not the same which creates confusion in the minds of the accountants as well as auditors. It is also specified that where a
requirement of an accounting standard is different from the applicable law, the law prevails. Accordingly, a requirement of an accounting standard is not applicable to the extent it is in conflict with the requirement of the relevant law. Accordingly, the auditor should not assert non-compliance of such cases of conflicts and should not qualify his report in this regard on the true and fair view of the state of the affairs and profit or loss of the auditee. Considering this position, it should be seen that there is no conflict in law and AS, either appropriate changes should be made in law or AS at an earliest possible date.

4. Business organizations should prepare their financial statements after complying with the applicable Accounting Standards. But there is not any statutory provision fixing responsibility on Owners or Management of such business entity. The duty is cast on the auditors to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit, the compliance is verified only at the time of audit being carried out and if accounts are not AS compliant either they are regularized under the instructions and observations of the auditor or otherwise auditor has to mention the fact of non-compliance in his report which gives adverse message to the readers of the financial statements. Instead of that, there should be some statutory provisions by which the business organizations should implement and comply with the provisions of AS on their own. Some statutory penalizing provisions should be enacted so that non-complying units will have to implement and comply with AS at the earliest.

5. Considering the complex nature of AS and their mandatory nature, there is lack of sufficient trained manpower to take care of all the aspects of the existing applicable AS as well for all the business organizations. This creates need for imparting knowledge to all the accounting executives working for various organizations as well as to consultants working in this
field. If some machinery is set for the same, due compliance will be done by maximum number of business organizations to whom AS are applicable. In coming days, IFRS are to be made applicable in India also. These will be new set of rules to be implemented and complied by various business organizations. Even if they are to be adopted / implemented (i.e. will be mandatory) stagewise for various types of organizations, there will be a need of large number of experts to convert the ongoing accounting procedures to newly introduced IFRS. This indeed will required training to existing Chartered Accountants, Accounting Professionals and also to employees working in Accounts Department in Business Organizations. Institute is carrying courses for its members. It is a welcome move. But the scope needs to be widened and it should be seen that maximum number of persons working in this field are trained for smooth conversion form existing AS to near final Indian Accounting Standards (Ind ASs) and first time adoption of the same.

11.6 Summing up

Considering the importance of Accounting Standards in preparation of Financial Statements, Institute has issued 32 Accounting Standards so far. It is doing its best so that Indian Accounting Standards are at par with the International Accounting Standards. Proper cognizance is also taken by the Government of the same as there are certain provisions in Companies Act and Income Tax Act to prepare Financial Statement with adherence to the specified Accounting Standards.

It could be said that although companies are more or less complying with the Accounting Standards even though uniform accounting policy is desirable. Accounting standards are essential to the efficient functioning of the economy because decisions about the allocation of the resources rely heavily on the credible, concise and understandable financial information, but still some modifications are required. Indeed, India has been "adapting" international
accounting standards. Only in a few areas the Indian standards differ from IFRS. There again, IFRS could, in some cases, change its standards on par with India or India could change its own. Giving example of the few areas where India and IFRS differed, Indian companies have to, by law, charge a specified minimum depreciation to its profits, while the international practice was to let the companies decide on the rates of depreciation depending upon the economic value of the asset. Another example, India treats redeemable preference shares as part of capital, whereas elsewhere in the world it is debt.

From this long duration it can be seen that the harmonization process is complex, which needs its time to be accepted and manifested. It seems to us that the process was slow, full of disagreements and conflicts between the agencies involved. Then also now we have Accounting Standards at par with International Accounting Standards.

It is observed that:-

1. In practical field of accountancy, in case of large units, accounting rules and principles become necessary. These rules bring uniformity in the accounting procedures and treatment of various transactions and financial statements are prepared on the basis of principles laid down by various applicable Accounting Standards. It is only because of Accounting Standards, comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country becomes possible.

2. There are certain areas where important information is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

3. The accounting standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may have give a true and fair view. The ostensible purpose of the
standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in companies economic performance.

4. The governing body (i.e. ICAI) has made the Accounting Standards Mandatory for all types of business organizations. This means AS are to be followed by Proprietorships, Partnerships, Co-operative Societies, Charitable Trusts, HUF, AOPs and Companies- Private as well as Public. The Preface to the Statements of Accounting Standards48 states that the Institute will issue Accounting Standards for use in the presentation of the general purpose financial statements issued to the public by such commercial, industrial or business enterprises as may be specified by the Institute from time to time and subject to the attest function of its members. The reference to commercial, industrial or business enterprises is in context of the nature of activities carried on by the enterprise rather than with reference to its objects. It is quite possible that an enterprise has charitable objects but it carries on, either wholly or in part, activities of a commercial, industrial or business nature in furtherance of its objects. The Board believes that Accounting Standards apply in respect of commercial, industrial or business activities of any enterprise, irrespective of whether it is profit oriented or is established for charitable or religious purposes. Accounting Standards will not, however, apply to those activities which are not of commercial, industrial or business nature.

5. It is also observed that mandatory status of an accounting standard implies that it will be the duty of the members of the Institute to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit. In the event of any deviation from the Accounting Standard, it will be their duty to make adequate disclosures in their audit reports so that the users of financial statements may be aware of such deviations.
6. But it is seen that in case of Small Entities where volume of transactions is on lower side or the organizations which cannot hire out the services of a professional accountant do not follow AS. Similarly as the duty is cast on the auditors to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit, the compliance is verified only in cases covered by audit. In short, in case of firms or business organizations where audit is not applicable, there is not any machinery whether such organizations have complied with AS in the preparation of their financial statements. In view of above discussion, there should be some relaxation to unorganized sector, to small and medium sized firms as well as organizations having low turnover.

7. Compliance of AS needs expertise or professional knowledge in this field. So it is observed that many large units also have not personnel having that much of expertise and in normal practice, they are not complying with the provisions of AS. But as the duty is cast on the auditors to examine whether the Accounting Standard is complied with in the presentation of financial statements covered by their audit, the compliance is verified only at the time of audit being carried out and if accounts are not AS compliant either they are regularized under the instructions and observations of the auditor or otherwise, auditor has to mention the fact of non-compliance in his report which gives adverse message to the readers of the financial statements.

8. Till date, there is not any statutory provision in any statute to levy penalty for non-compliance of AS. The Companies Act, 1956 and The Income Tax Act, 1961 have specific sections which recommend to comply with certain accounting standards. But there are not any penal provisions in both the statutes or any other statute. Maximum compliance can be seen once such provisions are introduced.
Accounting Standards in India are developed over a period and now almost at par with the International Accounting Standards. Interpretation and implementation as well as compliance need expertise on the subject. Considering the number of business organizations and mandatory nature of Accounting Standards, requisite number of manpower is not qualified or literate with respect to AS. Considering the above points, training of accounting personnel working for industry and business is must. The apex body ICAI should alongwith Government, Government Bodies, Chambers of Trade and Commerce, Industrial Associations should establish machinery to provide training facilities to the accounting executives and employees directly carrying on the accounting job which will help to implement the applicable AS in maximum number of business organizations.

IFRS: Though many Indian Accounting Standards (IAS) are based on IFRS and are fairly consistent with them, there has been a growing need for interpretation of IFRS and the effect of this convergence to preparers and interpreters of financial statements. Globalisation has helped Indian business look for offshore capital. This necessitated Indian companies desirous of looking for foreign capital to report their accounting procedures in the GAAP of the investing country. The different disclosure requirement for listing purposes has hindered the free flow of capital and made comparison of financial statements almost impossible.

The International Organisation of Securities Commission has initiated a movement to harmonise diverse disclosure practices. This resulted in a uniform global reporting and disclosure practice called the IFRS. Policymakers in India have realised the need to follow IFRS. This poses a great challenge to the drafters of financial statements and also to auditors. The convergence note of the ICAI states that IFRS is applicable from 2011. The first wave of IFRS would cover listed companies; banks, insurance companies, mutual funds and financial institutions; companies whose turnover in the preceding years exceeding Rs 100 crore; companies whose borrowing in previous years exceeded Rs 25 crore; holding or subsidiary companies of such companies.
It is observed that majority of companies comply and observe with the provisions of the Accounting Standards. Auditors of listed and large scale units verify the compliance and issue their audit reports accordingly. In rare cases, AS are implemented at a later date than it was made mandatory. There are rare cases of non compliance of a particular AS. In such cases, auditors issue qualified audit report. Auditors take care that wherever possible, quantification of effect of non-compliance is also reported so that readers of financial statements come to know the exact position of the company. The effect on profitability and on financial position is quantified and mentioned in the audit report itself.