Chapter Four
Comparative Study of Accounting Practices in USA and India

4.1 Introduction

Chapter five focuses on comparative study of accounting practices in USA and India. Business environment of both country are different, it influenced the accounting practices of the firm. Chapter gives the detail idea about various factors that affects the accounting practices of the firm of USA and India.

4.1.1 Chapter Objective

Aim of this chapter is to discuss the various factors which influenced the accounting practices and study of business firm.

4.1.2 Chapter Structure

Chapter five comprises five sections-

Section 4.1 – introduction, chapter objective and chapter structure.
Section 4.2 - Accounting Practices of the firm
Section 4.3 – Accounting practices
Section 4.4 – show the difference between IFRS and Indian Accounting Standards.
Section 4.5 - Comparative Study of Accounting Practices in USA and India
Section 4.6 – Conclusion
Section 4.7 – References.

4.2 Accounting Practices of the Firm

Accounting Practices of the firm is the routine manner in which the day to day financial activates of a business entity are gathered and recorded. A firm’s accounting practices refers to the method by which its accounting policies are implemented and adhered
to on a routine basis, typically by an accountant. It involves issues, problems, challenges arises in routine work while providing the accounting services.

4.3 Accounting Practices:-

It has been said that accounting is the “language of business,” and though not all users need to create the language, all users should be able to read the language. For decades, however, it has been difficult to read and understand company performance when financial statements under different accounting rules and regulations as a result, the different rules created different values or measures for the same economic event.

An accounting practice is intended to enforce a firm’s accounting guidelines and policies. It exists as the daily recording of financial data that is important to the evaluation and monitoring of the firm’s economic activities. Accounting practice refers to the normal, practical application of accounting and/or auditing policies that occurs within a business.

Accounting Practice and body of knowledge concerned primarily with

1. methods for recording transactions,
2. keeping financial records,
3. performing internal audits,
4. reporting and analyzing financial information to the management, and
5. advising on taxation matters.

It is a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial information. It reveals profit or loss for a given period, and the value and nature of a firm’s assets, liabilities and owners’ equity.

Accounting provides information on the

1. resources available to a firm,
2. the means employed to finance those resources, and
3. the results achieved through their use.
Both the country, India and USA follow the Accounting Standards to run the accounting practices. Indian accounting practices follow Indian Accounting Standards and USA's accounting practices follow IFRS.

Accounting standards are used as regulatory mechanisms for preparation of financial reports in almost all the countries of the world. Accounting Standard are written policy documents issued by expert accounting body or government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting standard is to standardize the diverse accounting policies and practices with a view to eliminate to the extent the non-comparability of financial statements and add the reliability to the financial statements.

Institute of Chartered Accountants of India (ICAI) has formed Accounting Standards Board (ASB) in 1977, upon which the responsibility was set to develop accounting standards to be issued and revised in the country from time to time. Though ASB is shaped by ICAI, it is independent in the formulation of accounting standards. ASB comprises members from various fields and organization and it also takes in to consideration customs, usages and business environment prevailing in the country while formulation the standards.

From 1973 to 2000 International Accounting Standard Committee (IASC) was the body upon which the responsibility was set to issue International Accounting Standards. In 2001 IASC was replaced by International Accounting Standards Board (IASB). Since then International Accounting Standards Board (IASB), based at London – UK is now responsible to issue International Financial Reporting Standards (IFRS and International Accounting Standards (IAS). IASB is independent body and consists of members from nine different countries around the globe having variety of functional backgrounds.

4.4 Difference between IFRS and Indian Accounting Standards-

The present position of Indian accounting standards has been depicted in the following comparative statements of International Financial Reporting Standards and Indian Accounting Standards.
<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>International Financial Reporting Standards (IFRSs)</th>
<th>Indian Accounting Standards (ASs)</th>
<th>Major Differences</th>
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<tr>
<td>No.</td>
<td>Title of the Standard</td>
<td>No.</td>
<td>Title of the Standard</td>
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<tr>
<td>1.</td>
<td>IAS 1 Presentation of Financial Statements</td>
<td>AS 1 Disclosure of Accounting Policies</td>
<td>AS 1 is based on the pre-revised IAS 1. AS 1 is presently under revision to bring it in line with the current IAS 1. The Exposure Draft of the revised AS 1 is being finalised on the basis of the comments received on its limited exposure amongst the specified outside bodies. The major differences between IAS 1 and the draft revised AS 1 are discussed hereinafter. <strong>Differences due to removal of alternatives</strong> 1. Unlike IAS 1, the draft of revised AS 1 does not provide any option with regard to the presentation of ‘Statement of Changes in Equity’. It requires</td>
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</table>
statement showing all changes in the equity to be presented.

The IASB has recently issued an Exposure Draft of the proposed Amendments to IAS 1. The Exposure Draft proposes to remove the option given in IAS 1 and to require the presentation of statement showing all changes in the equity which is in line with the decisions taken by the ASB of the ICAI.

2. Unlike IAS 1, the draft of revised AS 1 does not provide any option with regard to additional disclosures regarding share capital, e.g., number of shares authorised, issued, fully paid, etc. and regarding nature and purpose of reserves, etc., to be made on the face of the balance sheet or in the notes. Considering the information overload, the draft of revised AS 1
requires this information to be presented only in the notes and schedules and not on the face of the balance sheet.

Differences due to legal and regulatory environment

3. In India, the laws governing the companies, banking enterprises and insurance enterprises prescribe detailed formats for the financial statements to be followed by respective enterprises. To make the revised AS 1 acceptable to the law makers/ regulators, the ASB has decided to give detailed formats for financial statements for companies in an Appendix. In the Appendix, mainly additional disclosures as compared to IAS 1 are proposed to be given.

4. IAS 1 uses the expression ‘present fairly’ whereas draft of revised AS 1 uses the expression
true and fair’ in view of the various laws requiring the relevant entities and the auditors to ensure that the financial statements give a ‘true and fair view’.

**Conceptual Differences**

5. IAS 1 requires that if different measurement bases are used for different classes of assets, they should be presented as separate line items on the face of the balance sheet. It is felt that requiring bifurcation of assets on the basis of different measurement bases on the face of the balance sheet itself would result in information overload. Keeping this in view, the draft of the proposed revised AS 1 does not require separate presentation of such assets on the face of the balance sheet; rather, it requires separate presentation of such assets to be made in the
<table>
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<th>IAS 2</th>
<th>Inventories</th>
<th>AS 2</th>
<th>Valuation of Inventories</th>
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</table>

AS 2 is based on IAS 2 (revised 1993). IAS 2 has been revised in 2003 as a part of the IASB’s improvement project. Major differences between AS 2 and IAS 2 (revised 2003) are as follows:

**Differences due to level of preparedness**

1. IAS 2 specifically deals with costs of inventories of an enterprise providing services. However, keeping in view the level of understanding that was prevailing in the country regarding the treatment of inventories of an enterprise providing services at the time of last revision of AS 2, the same are excluded from the scope.
of AS 2.

2. Keeping in view the level of preparedness in the country at the time of last revision of AS 2, AS 2 requires lesser disclosures as compared to IAS 2.

3. IAS 2 specifically provides that the measurement requirements of the Standard do not apply to the measurement of inventories held by commodity broker-traders who measure their inventories at fair value less costs to sell. AS 2 does not contain any exclusion or separate provisions relating to inventories held by commodity broker-traders. (Broker-traders are those who buy or sell commodities for others or on their own account. The inventories are principally acquired by a broker-trader with the purpose of selling in the
near future and generating a profit from fluctuations in price or broker-traders’ margin.) By implication, the measurement basis laid down in the Standard, viz., lower of cost and net realisable value, applies to inventories of commodity trader-brokers.

Conceptual differences

4. AS 2 specifically excludes “selling and distribution costs” from the cost of Inventories and provides that it is appropriate to recognise them as expenses in the period in which they are incurred. However IAS 2 excludes only “Selling Costs” and not “Distribution Costs”.

5. AS 2 does not deal with the issues relating to recognition of inventories as an expense including the write down of inventories to net realisable value and any
6. AS 2 provides that the cost of inventories of items other than those which are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by using the first-in, first-out (FIFO), or weighted average cost formula. It is specifically required by AS 2 that the formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition. However IAS 2 does not require the same for the choice of the formula to be used, rather it requires that same cost formula should be used for all inventories having a similar nature and use to the entity.
3. Corresponding AS 6 has been withdrawn since the matter is now covered by IAS 16 and IAS 38.

AS 6 was formulated on the basis of IAS 4, *Depreciation Accounting*, which has since been withdrawn. The corresponding Indian Accounting Standard (AS) 10, *Accounting for Fixed Assets*, is being revised to bring it in line with IAS 16. The Council has approved the draft of the revised AS 10 and the same will be issued shortly. Upon issuance of the revised AS 10, AS 6 would be withdrawn.

4. IAS 7 Cash Flow Statements AS 3 Cash Flow Statements

AS 3 is based on the current IAS 7. The major differences between IAS 7 and AS 3 are as below:

**Differences due to removal of alternatives**

1. In case of enterprises other than financial enterprises, unlike IAS 7, AS 3 does not provide any option with regard to classification of interest paid. It requires interest paid to be classified as...
2. In case of enterprises other than financial enterprises, AS 3 does not provide any option with regard to classification of interest and dividend received. It requires interest and dividend received to be classified as investing cash flows.

3. AS 3 also does not provide any option regarding classification of dividend paid. It requires dividend paid to be classified as financing cash flows.

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<th>Accounting Policies, Changes in Accounting Estimates and Errors</th>
<th>AS 5</th>
<th>Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies</th>
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AS 5 is based on the earlier IAS 8. AS 5 is presently under revision to bring it in line with the current IAS 8. The exposure draft of the revised AS 5 is being prepared on the basis of the comments received on its limited exposure among the specified outside bodies. There is no major difference between IAS 8 and the
<table>
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<th>AS 4</th>
<th>Contingencies and Events Occurring after the Balance Sheet Date</th>
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<td>6.</td>
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<td>AS 4 is based on the pre-revised IAS 10 which dealt with the Contingencies as well as the Events Occurring After the Balance Sheet Date. Recently, on the lines of IAS 37, the ICAI has issued AS 29. Pursuant to the issuance of 29, the portion of AS 4 dealing with the Contingencies, except to the extent of impairment of assets not covered by other accounting standards, stands superseded. AS 4 now deals with the Events After the Balance Sheet Date. AS 4 is presently under revision to bring it in line with the corresponding IAS 10.</td>
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<td></td>
<td><strong>Difference due to legal and regulatory environment</strong></td>
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<td>1. As per IAS 10, proposed dividend is a non-adjusting event.</td>
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</table>
However, as per the Indian law governing companies, provision for proposed dividend is required to be made, probably as a measure of greater accountability of the company concerned towards investors in respect of payment of dividend. While attempts are made, from time to time, at various levels, to persuade the Government for changes in law; it is a time-consuming process.

2. As per IAS 10, non-adjusting events, which are material, are required to be disclosed in the financial statements. However as per AS 4, such disclosures are required to be made in the report of the approving authority and not in the financial statements.

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<th>IAS 11</th>
<th>Construction Contracts</th>
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<th>Construction Contracts</th>
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</table>

AS 7 is based on the current IAS 11. There is no difference between AS 7 and AS 11.
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**Differences due to level of preparedness**

Ø Keeping in view the level of preparedness in the country at the time of issuance of AS 22, AS 22 was based on the Income Statement Approach.

Ø ICAI is revising AS 22 to bring it in line with IAS 12.

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<th>IAS 14</th>
<th>Segment Reporting</th>
<th>AS 17</th>
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**AS 17 is based on the current IAS 14. The major differences between IAS 14 and AS 17 are described hereinafter.**

**Differences due to removal of alternatives**

1. IAS 14 encourages, but does not require, the reporting of vertically integrated activities as separate segments. However, under AS 17, in case a vertically integrated segment meets the quantitative norms
for being a reportable segment, the relevant disclosures are required to be made.

2. As per IAS 14, a segment identified as a reportable segment in the immediately preceding period on satisfying the relevant 10% threshold, shall be reportable segment in the current period also if the management judges it to be of continuing significance. However as per AS 17, this reporting is mandatory without considering the management’s judgement

Differences due to level of preparedness

3. IAS 14 prescribes certain additional disclosure requirements regarding enterprise’s share of profit or loss of associates and joint ventures and regarding restatement of prior year information, etc. At the
time of issuance of AS 17, there were no Accounting Standards in India dealing with accounting for investments in associates and joint ventures, etc. Accordingly, these disclosures are not specifically covered in AS 17.

4. As per IAS 14, for a segment to qualify as a reportable segment, it is required for it to earn the majority of its revenue from external customers in addition to meeting the 10% threshold criteria of revenue, operating results or total assets required in AS 17.

The IASB has recently issued IFRS 8 on ‘Operating Segments’ which would supersede IAS 14 with effect from January 2009. The ASB of the ICAI would consider the above differences between AS 17 and IAS 14 while
revising its AS 17 to bring it in line with IFRS 8 on ‘Operating Segments’.

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<tr>
<td>10.</td>
<td>IAS 16</td>
<td>Property, Plant and Equipment</td>
<td>AS 10</td>
<td>Accounting for Fixed Assets</td>
</tr>
</tbody>
</table>

AS 10 is based on the earlier IAS 16. AS 10 is being revised to bring it in line with the current IAS 16. The draft revised AS 10 has been approved by the Council and will be issued shortly. The following are the major differences between IAS 16 and draft revised AS 10:

**Differences due to legal and regulatory environment**

1. In India, the law governing the companies prescribes minimum rates of depreciation. Keeping this in view, the revised AS 10 recognises that depreciation rates prescribed by the statute would be the minimum rates of depreciation.

**Conceptual differences**

2. As per IAS 16, all
servicing equipments, whether major or minor, except servicing equipments which can be used only in connection with an item of property, plant and equipment, are carried as inventory and recognised in the statement of profit and loss, when consumed. Servicing equipments that can be used only in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Keeping in view the nature of servicing equipments as separate assets, draft of the AS 10 (revised) requires all servicing equipments to be treated as property, plant and equipment.

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<th>11.</th>
<th>IAS 17</th>
<th>Leases</th>
<th>AS 19</th>
<th>Leases</th>
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</table>

AS 19 is based on IAS 17 (revised 1997). IAS 17 has been revised in 2004. The major differences between IAS 17 and AS 19(revised
Conceptual differences

1. Keeping in view the peculiar land lease practices in the country, lease agreements to use lands are specifically excluded from the scope of AS 19 whereas IAS 17 does not contain this exclusion.

2. IAS 17 specifically provides that the Standard shall not be applied as the basis of measurement for:

   (a) property held by lessees that is accounted for as investment property;

   (b) investment property provided by lessors under operating leases;

   (c) biological assets held by lessees under finance leases; or
(d) biological assets provided by lessors under operating leases

However AS 19 does not exclude the above from its scope.

5. AS 19 specifically prohibits upward revision in estimate of unguaranteed residual value during the lease term. However IAS 17 does not prohibit the same.

6. As per IAS 17 initial direct costs incurred by a lessor other than a manufacturer or dealer lessor have to be included in amount of lease receivable in the case of finance lease resulting in reduced amount of income to be recognised over lease term and in the carrying amount of the asset in the case of operating lease as to expense it over the lease term on the same basis as the
lease income. However as per AS 19, these can be either charged off at the time of incurrence in the statement of profit and loss or can be amortised over the lease period.

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<td>12.</td>
<td>IAS 18</td>
<td>Revenue</td>
<td>AS 9 Revenue Recognition</td>
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AS 9 is based on the earlier IAS 18. AS 9 is presently under revision to bring it in line with the current IAS 18.

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<td>13.</td>
<td>IAS 19</td>
<td>Employee Benefits</td>
<td>AS 15 Employee Benefits</td>
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</table>

AS 15 is based on the current IAS 19. The major differences between IAS 19 and AS 15 are described hereinafter.

**Difference due to removal of alternatives**

1. Unlike IAS 19, AS 15 does not provide any option with regard to recognition of actuarial gains and losses. It requires such gains and losses to be recognised immediately in the statement of profit and
loss.

**Conceptual Difference**

2. Regarding recognition of termination benefits as a liability, it is felt that merely on the basis of a detailed formal plan, it would not be appropriate to recognise a provision since a liability cannot be considered to be crystallised at this stage. Accordingly, AS 15 provides criteria for recognition of a provision for liability in respect of termination benefits on the basis of the general criteria for recognition of provision as per AS 29, *Provisions, Contingent Liabilities and Contingent Assets* (corresponding to IAS 37).

It may be noted that the IASB has recently issued an Exposure Draft of the proposed Amendments to IAS 19 whereby the criteria regarding recognition of
termination benefits as a liability are proposed to be amended. The Exposure Draft proposes that voluntary termination benefits should be recognised when employees accept the entity’s offer of those benefits. We, in our comments on the Exposure Draft, have pointed out that in a country such as India, such a requirement would give erroneous results since the schemes generally have the following characteristics in terms of the steps involved in implementing the scheme:

(i) Announcement of the scheme by an employer, which is considered as an "invitation to offer" to the employees rather than the offer to the employees for voluntary termination of their services.
(ii) Employees tender their applications under the scheme. This does not confer any right to the employees under the scheme to claim termination benefits. In other words, tendering of application by an employee is considered as an ‘offer’ in response to ‘invitation to offer’, rather than acceptance of the offer by the employee.

(iii) The acceptance of the offer made by the employees as per (ii) above by the management.

Keeping in view the above, we have suggested that as per the above scheme, liabilities with regard to voluntary termination benefits should be recognized at the time when the management accepts the offer of the employees rather than at the time the employees tender their
applications in response to the ‘invitation to offer’ made by the management.

If our comments on the Exposure Draft are accepted, the amended criteria in IAS 19 would result into recognition of the liability broadly at the same time as under the criteria prescribed in AS 15.

Incidentally, it may be mentioned that the treatment prescribed in AS 15 is also in consonance with the legal position in India.

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<td>• AS 12 is being revised to bring it in line with IAS 20.</td>
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<td>• The Exposure Draft of the proposed revised AS 12 has been issued for public comments</td>
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<td>• There is no major difference between the Exposure Draft of the standard and IAS 20.</td>
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</table>
### 15. IAS 21 vs. AS 11: The Effects of Changes in Foreign Exchange Rates

<table>
<thead>
<tr>
<th>AS 21</th>
<th>The Effects of Changes in Foreign Exchange Rates</th>
<th>AS 11</th>
<th>The Effects of Changes in Foreign Exchange Rates</th>
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<tr>
<td>Difference due to level of preparedness</td>
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<tr>
<td>1. AS 11 is based on the integral and non-integral foreign operations approach, i.e., the approach which was followed in the earlier IAS 21 (revised 1993).</td>
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<td>2. The current IAS 21, which is based on ‘Functional Currency’ approach, gives similar results as that under pre-revised IAS 21, which was based on integral/non-integral foreign operations approach. Accordingly, there are no significant differences between IAS 21 and AS 11.</td>
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<td>3. The current AS 11 has recently become effective, i.e., from 1-4-2004. It is felt that some experience should be gained before shifting to the current IAS 21.</td>
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### 16. IAS Borrowing vs. AS Borrowing Costs

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<th>IAS</th>
<th>Borrowing</th>
<th>AS</th>
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<tr>
<td>There is no major difference between AS</td>
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<td>17.</td>
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AS 18 is based on IAS 24 (reformatted 1994) and following are the major differences between the two.

**Conceptual differences**

1. According to AS 18, as notified by the Government, a non-executive director of a company should not be considered as a key management person by virtue of merely his being a director unless he has the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. However, IAS 24 provides for including non-executive director in key management personnel.

2. In AS 18 the term ‘relative’ is defined as “the spouse, son, daughter, brother, sister,
father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting enterprise” whereas the comparable concept in IAS 36 is that of ‘close members of the family of an individual’ who are “those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:

(a) the individual’s domestic partner and children;

(b) children of the individual’s domestic partner; and

(c) dependants of the individual or the individual’s domestic partner.”

<p>| 18. | IAS Consolidated and Separate | AS Consolidated Financial | AS 21 is based on IAS 27 (revised 2000). |</p>
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<th>Financial Statements</th>
<th>21</th>
<th>Statements</th>
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Revisions made to IAS 27 /IAS 27 R are being looked into by the ASB of the ICAI.

**Difference due to legal and regulatory environment**

1. Keeping in view the requirements of the law governing the companies, AS 21 defines control as ownership of more than one-half of the voting power of an enterprise or as control over the composition of the governing body of an enterprise so as to obtain economic benefits. This definition is different from IAS 27, which defines control as “the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities”.

**Conceptual Differences**

2. AS 21, at present, makes reference to AS
13, *Accounting for Investments*, with regard to the accounting for an investment in a subsidiary in the separate financial statements. On the issuance of the proposed Accounting Standard 30 on ‘Financial Instruments: Recognition and Measurement’, AS 13 would stand withdrawn. Keeping this in view, the Exposure Draft for the limited revision to AS 21, which has recently been issued, proposes to include accounting for investment in subsidiary in the separate financial statements in AS 21.

IAS 27 provides the following two options with regard to accounting for an investment in a subsidiary:

(i) at cost; or

(ii) in accordance with IAS 39.

When an investment in a
subsidiary is accounted for in accordance with IAS 39, the same is included in the ‘available for sale’ category.

The ASB of the ICAI is of the view that keeping in view the nature and specific objective for which an investment in a subsidiary is acquired, it is not correct to include such investment in the available-for-sale category and measure the same at fair value. Therefore, unlike IAS 27, draft for limited exposure to AS 21, does not provide any option with regard to the accounting for an investment in a subsidiary in the separate financial statements. It requires such investments to be valued at cost only.

19. **IAS 28** Investments in Associates

AS 23 Accounting for Investments in Associates in Consolidated

AS 23 is based on the IAS 28 (revised 2000). Revisions made to IAS 28 are being looked into
Conceptual Differences

The conceptual differences, explained in relation to IAS 27, are relevant in this case also.

|   | IAS 31 | Interests in Joint Ventures | AS 27 | Financial Reporting of Interests in Joint Ventures | AS 27 is based on the IAS 31 (revised 2000). Revisions made to IAS 31 are being looked into by the ASB of the ICAI. Difference due to removal of alternatives
1. Unlike IAS 31, AS 27 does not provide any option for accounting of interests in jointly controlled entities in the consolidated financial statements of the venturer. It requires proportionate consolidation to be followed and venturer’s share of each of the assets, liabilities, income and expenses of a jointly controlled entity to be reported as separate line items. |
## Conceptual differences

The conceptual differences, explained in relation to IAS 27, are relevant in this case also.

### Differences due to level of preparedness

1. As per IAS 33 revised, basic and diluted amounts per share for the discontinued operation are required to be disclosed. However AS 20 does not require such disclosures.

2. IAS 33 revised requires the disclosure of antidilutive instruments also which is not required by AS 20.

### Table of Differences

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<td>Interim Financial</td>
<td>AS 25</td>
<td>Interim Financial</td>
<td>AS 25 is based on the current IAS 34. The major differences</td>
</tr>
</tbody>
</table>

AS 20 is based on the IAS 33 (issued 1997). Revisions made to IAS 33 are being looked into by the ASB of the ICAI.
Differences due to legal and regulatory environment

1. In India, at present, the statement of changes in equity is not presented in the annual financial statements since, as per the law, this information is required to be disclosed partly in the profit and loss account below the line and partly in the balance sheet and schedules thereto. Keeping this in view, unlike IAS 34, AS 25 presently does not require presentation of the condensed statement of changes in equity. However, as a result of proposed revision to AS 1, limited revision to AS 25 has also been proposed, which requires to present the condensed statement of
changes in equity as part of condensed financial statements and limited exposure for the same has been made.

2. Keeping in view the legal and regulatory requirements prevailing in India, AS 25 provides that in case a statute or a regulator requires an enterprise to prepare and present interim information in a different form and/or contents, then that format has to be followed. However, the recognition and measurement principles as laid down in AS 25 have to be applied in respect of such information.

<table>
<thead>
<tr>
<th>23.</th>
<th>IAS 36</th>
<th>Impairment of Assets</th>
<th>AS 28</th>
<th>Impairment of Assets</th>
</tr>
</thead>
</table>

AS 28 is based on the IAS 36 (issued 1998). At the time of issuance of AS 28, there was no major difference between AS 28 and IAS 36.

IASB, pursuant to its
208

|-----|--------|----------------------------------------------------------|-------|----------------------------------------------------------|

AS 29 is based on the current IAS 37. The major differences between IAS 37 and AS 29 are described hereinafter.

**Difference due to level of preparedness**

1. AS 29 requires that the amount of a provision should not be discounted to its present value since financial statements in India are prepared generally on historical cost basis and not on present value basis. However a limited revision is being proposed to bring it in line with IAS 39 insofar as this aspect is concerned.
Conceptual Differences

2. IAS 37 deals with ‘constructive obligation’ in the context of creation of a provision. The effect of recognising provision on the basis of constructive obligation is that, in some cases, provision will be required to be recognised at an early stage. For example, in case of a restructuring, a constructive obligation arises when an enterprise has a detailed formal plan for the restructuring and the enterprise has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. It is felt that merely on the basis of a detailed formal plan and announcement thereof, it would not be appropriate to recognise a provision since a liability cannot be
considered to be crystalised at this stage. Further, the judgment whether the management has raised valid expectations in those affected may be a matter of considerable argument.

In view of the above, AS 29 does not specifically deal with ‘constructive obligation’. AS 29, however, requires a provision to be created in respect of obligations arising from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. In such cases, general criteria for recognition of provision are required to be applied.

Incidentally, it may be mentioned that the treatment prescribed in AS 29 is also in consonance with the legal position in India.
| 25. | IAS 38 | Intangible Assets | AS 26 | Intangible Assets |
| 3. | Unlike IAS 37, as a measure of prudence, AS 29 does not require contingent assets to be disclosed in the financial statements. |

AS 26 is based on IAS 38 (issued 1998). IASB, as a part of its project on Business Combinations, has revised IAS 38. These revisions to IAS 38 would be looked into by the ASB with the issuance of the Accounting Standard on Business Combinations.

Following are the major differences between AS 26 and IAS 38:

**Conceptual Differences**

1. An intangible asset is defined as an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes whereas IAS 38 defines
an intangible asset ‘as an identifiable non-monetary asset without physical substance’.

2. AS 26 is based on the assumption that the useful life of the intangible asset is always definite. In regard to assets with definite life also there is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Whereas IAS 36 recognises that an intangible asset may have an indefinite life. In respect of intangible assets having a definite life, the Standard does not contain rebuttable presumption about their useful life.

3. As per AS 26 if control over the future economic benefits from an intangible asset is achieved through legal
rights that have been granted for a finite period, it is required that the useful life of the intangible asset should not exceed the period of the legal rights unless:

(a) the legal rights are renewable; and

(b) renewal is virtually certain.

However, IAS 38 requires ‘evidence to support renewal’ instead of visual certainty for renewal.

<p>| 26. | Corresponding IAS has been withdrawn since the matter is now covered by IAS 32, 39, 40 and IFRS 7 | AS 13 | Accounting for Investments | AS 13 was formulated on the basis of IAS 25, <em>Accounting for Investments</em>. Pursuant to the issuance of IAS 32, IAS 39, IAS 40 and IFRS 7, IAS 25 has been superseded. The Exposure Drafts of the proposed Indian Accounting Standards corresponding to IAS 39 and IAS 32 have been issued which will supersede AS 13, which |</p>
<table>
<thead>
<tr>
<th></th>
<th>IFRS</th>
<th>Standard</th>
<th>Basis</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>27.</td>
<td>IAS 40</td>
<td>Investment Property</td>
<td>-</td>
<td>Dealt with by Accounting Standard 13</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>AS 13 was formulated on the basis of IAS 25, <em>Accounting for Investments</em>. Pursuant to the issuance of IAS 32, IAS 39 and IAS 40, IAS 25 has been superseded. The proposed Indian Accounting Standard corresponding to IAS 39 and IAS 40 is under preparation.</td>
</tr>
<tr>
<td>28.</td>
<td>IFRS 3</td>
<td>Business Combinations</td>
<td>AS 14</td>
<td>Accounting for Amalgamations</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• AS 14 was formulated on the basis of earlier IAS 22, <em>Business Combinations</em>.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Pursuant to the issuance of IFRS 3, <em>Business Combinations</em>, IAS 22 has been superseded.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• AS 14 is presently under revision to bring it in line with the IFRS 3.</td>
</tr>
<tr>
<td>29.</td>
<td>IFRS 5</td>
<td>Non-current Assets Held for Sale and Discontinuing Operations. Further, AS 10</td>
<td>AS 24</td>
<td>• AS 24 is based on the IAS 35, <em>Discontinuing Operations</em>, which has</td>
</tr>
</tbody>
</table>
Discontinued Operations deals with accounting for fixed assets retired from active use. been superseded pursuant to the issuance of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

- An Indian Accounting Standard corresponding to IFRS 5 is under preparation. The first draft is ready which is in consonance with IFRS 5.
- After the issuance of this Indian accounting standard, AS 24 is proposed to be withdrawn.

(Source: http://wirc-icai.org)

4.5 Comparative Study of Accounting Practices in USA and India:-

The following analysis depicts vast differences among accounting practices in USA and India. It is imperative that these differences studied and that factors affect directly and indirectly working of organizations in both countries be identified.

1. Accounting Standards-

Both countries use different Accounting Standards to run the accounting practices. USA use IFRS and India use Indian Accounting Standards to run accounting practices. The difference between IFRS and Indian Accounting Standards (Table 5.1) is influence on accounting concepts, method of measuring and recording the transactions, presentations of financial statements etc. Thus accounting practices in USA and India are differing from each other.
2. **Economic Conditions**-

   Economic conditions of both countries effects on accounting practices. The economic conditions of the nation refer to a set of economic factors that have great influence on business organizations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. all these help in improving the space of economic growth.

3. **Social Environment and Cultural**-

   Social environment and Culture of USA and India have affected the accounting practices. The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. The social structure and the values the society cherishes have a considerable influence on the functioning of business firms.

   No two cultures are the same and understanding both the social and business culture in another country is the first key to success. Culture defines everything a society does, from its business practices, to its response to advertising and marketing, to negotiating sales. Understanding these, often sensitive, areas will mean that business is better prepared when first entering the market.

4. **Issues and Problems**-

   Accounting practices of USA and India faces the different issues and problems at different level, its affects the accounting practices of both countries. Employees problems, Technical problems, Government problems, Financial problems, etc. creates at different level and make difference between the accounting practices of both countries.

5. **Challenges**-

   Challenges like competitors, customer, etc. create several challenges for both the service providers. Due to offshore and inshore outsourcing, USA and Indian practices face the challenges at different level.
6. Legal System-
This refers to set of laws, regulations, which influence the business organizations and their operations. Every business organization has to obey, and work within the framework of the law. No two countries have the same legal systems. Each government has its own policies relating to business practices. The key is to understand that once business are in foreign market, it must abide by the rules and laws of that country, not the ones in own countries legal system.

7. Technology-
Technology includes the methods, techniques and approaches adopted for production of goods and services and its distribution. In modern competitive age, the pace of technological changes is very fast. Hence, in order to survive and grow in the market, a business ahhs to adopt the technological changes from time to time. The degree of technology can vary substantially in foreign markets. If business practices require a high degree of technology sophistication to use or implement, the business with low level of technology will not e suitable for the business.

8. Labour Force-
Labour force of the country is depending on the population, population structure, literacy rate, etc. Employee creates different problems to employer, such as Knowledge and skills of employees, retention problem, training problems, etc. creates the obstacles in routine work. Thus labour force of USA and India creates different problems to accounting practices at different level.

6. Competition-
Those who sell same or similar products and services as your organization are your market competition. How does their price and service differentiation impact our business? How can you leverage this to reap better results and get ahead of them? There are two types of competition i.e. domestic competition and competition from other country. Foreign competition is more dynamic and complex than domestic competition. In short different type of competition creates the different situation in front of accounting practices.
Table 4.2 Different between Accounting Practices in USA and India –

<table>
<thead>
<tr>
<th>Factors</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Standards</td>
<td>28.98</td>
</tr>
<tr>
<td>Economic Conditions</td>
<td>23.15</td>
</tr>
<tr>
<td>Social and Cultural Factors</td>
<td>6.81</td>
</tr>
<tr>
<td>Challenges</td>
<td>19.73</td>
</tr>
<tr>
<td>Issues and Problems</td>
<td>21.33</td>
</tr>
</tbody>
</table>

(Source – Primary Data)

Graph 4.1 Different between Accounting Practices in USA and India –

29% gave preference to Accounting Standards, 23% respondents prefer Economic Conditions, Issues and Problems is the opinion of 21% respondents, Challenges is impacting factors said by 20% respondents and social and cultural factors said by 7% respondents.

As per given response of respondents Accounting Standards, Economic Conditions, Issues and Problems and Challenges are the main factors that affected the outsourcing accounting practices in USA and India. Social and Cultural Factors have less impact on them.
Table 4.3 Effects of Accounting Standards on accounting practices -

<table>
<thead>
<tr>
<th>Impact</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Concept</td>
<td>17.75</td>
</tr>
<tr>
<td>Preparations of Accounts</td>
<td>22.90</td>
</tr>
<tr>
<td>Measurement and Recording of transaction</td>
<td>29.67</td>
</tr>
<tr>
<td>Presenting the financial Statements</td>
<td>29.67</td>
</tr>
</tbody>
</table>

(Source – Primary Data)

Graph 4.2 Effects of Accounting Standards on accounting practices -

Same response given to Measurement and Recording of transaction and Presenting the Financial Statements i.e. 30%. Preparation of accounts is voted by 23% respondents. Accounting Concept is the opinion of 18% respondents.

Accounting standards play a vital role in accounting practices. Due change in accounting standards it affects the accounting practices as accounting concept, measurement and recording of transactions, preparation of accounting and presentations of finical statements are changed.
4.6 Conclusion:

In this way difference between the IFRS and Indian Accounting Standards affected on Accounting Practices of both the countries. The business practices of both countries are also differing due to economic conditions, issues and problems, challenges, social and cultural factors, etc. These factors are directly or indirectly affected on the accounting practices of USA and India.

Chapter five is analysis and interpretation of primary data.

4.7 References:

http://wirc-icai.org