CHAPTER - SEVEN

SUMMARY OF THE FINDINGS AND CONCLUSION
Introduction

In the earlier chapters, so far have been discussed the overall theoretical background of accounting standards and studied four major accounting standards set at national and international levels as sample. How far, setting of these are justified need recapitulation of the findings made thereon. For the purpose, the summary of the findings are sketched here first. Then are enquired the propriety of them. A few suggestions and comments are presented by way of conclusion at the end.

Standard on Disclosure of Accounting Policies: Disclosure, in fact is the primary objective of corporate reporting. But, there are various accepted accounting policies. Use of different policies presents different pictures of profitability and financial position of an entity. Here, users of accounting statements will not be in a position to make objective evaluation and to take wise decision if the adopted accounting policies are not disclosed clearly.

But, the disclosure practices are found to vary from person to person, firm to firm, industry to industry or even from country to country. These variations raise doubts about the reliability of the accounting statements. Being concerned with the gravity of the problem, academicians, professionals all over the world deliberated largely on this issue. These discussions are presented at a greater length in Chapter - Three.
However, the standard setting bodies have taken up this issue first. Though, they could not incorporate all the problems in their standards, they deliberated on major issues like the fundamental accounting assumptions and disclosure of non-compliance with them if any, the role of prudence, substance over form and materiality in the selection and application of accounting policies, the disclosure of adopted accounting policies as an integral part of annual accounts, the scope for change in accounting policy etc. (vide comparative statement, page nos. 51-55). Accounting standards, set so far, have provided concrete shape to all these issues.

Findings of the empirical study show that while major issues are settled, debate is still continuing on some other issues. Some points of agreement are that the going concern, consistency, accrual and prudence be followed as fundamental accounting assumptions, the non-compliance with these assumptions if any be disclosed, the reasons for non-compliance with the above assumptions be also disclosed, the prudence, substance over form and materiality should govern the selection and application of accounting policies, the change in accounting policy if any be disclosed etc. (vide empirical findings, page nos. 64-70).

Some areas of differences are: whether the adopted accounting policies be disclosed as an integral part of accounts or in supplementary notes, whether the distinction among the terms concepts, bases and policies are clear or not,
whether the conventional annual accounting reporting be shifted to half yearly or two yearly reporting etc. (vide empirical findings, page nos. 64-70).

Thus, all the issues relating to disclosure are not settled. Complete uniformity in the disclosure requirement is not yet ensured. Diversity still exist but such diversities are undoubtedly reduced by the promulgation of standards. Accounting standards on disclosure have not provided any invention or innovation to the accounting profession. Despite such limitations, it appears, they give a big push in the process of introducing uniformity in accounting practice; accordingly setting of the standards may be considered proper.

**Depreciation**

For maintenance of capital, provision for depreciation is a must for enterprise. With the increase in complexities in production system, investment in capital assets increases enormously and the assets are used for a number of years. How should this cost be recovered is a burning question since long past. Various concepts have developed and a number of practices are followed across the world. They vary from person to person, firm to firm and industry to industry. Accounting for depreciation involves accurate estimation of future uncertain events like useful life of asset, replacement cost of the same, its residual value, expected flow of revenue out of the use of asset etc. These estimations require judgements, and consequently the scope for variation arises.
To avoid or at least to minimize such variations, academicians and professional bodies deliberated widely from time to time. These are presented in the Chapter - Four.

It may be pointed out that academicians have been advocating for uniform accounting treatment of depreciation since long past. With the basic objective of harmonising among accounting practices, standards have been formulated by various bodies. Some of them have been compared in detail in the Chapter - Four. Study of the standards shows that various academic discussions, professional views and executive decisions are given concrete shape in the standards. They dwelt on the issues like: systematic and rational allocation of fixed assets, consistent use of depreciation method adopted, revision of useful life, disclosure of various aspects of depreciation accounting, depreciation on additions to or extension with fixed assets, adjustment of depreciation for change in historical cost of asset due to exchange fluctuation and change in duties, effect of revaluation on depreciation, identification of depreciable assets, treatment of residual value, depreciation on land and building, definition of depreciation etc. (vide comparative analysis, page nos.97-113). On major issues they agree with the standards while on some other issues they differ.

They agree on the issues that: management be allowed to select suitable method for allocation of fixed assets, the depreciation method adopted should be used consistently, the review of asset life and necessary revision thereof should take
place periodically, the disclosure of the method of depreciation adopted, useful life, periodic amount of depreciation, gross value of assets and accumulated depreciation is necessary, the residual value be deducted from the cost of asset for arriving at depreciable value etc. (vide empirical findings, page nos. 116-126).

Some of the areas of differences are: the procedure of depreciation on additions to or extension with fixed asset, necessity of adjusting depreciation for change in historical cost of asset due to exchange fluctuation, change in duties etc., considering change in depreciation method as change in accounting policy, requirement of depreciation on land etc. (vide empirical findings, page nos. 116-126).

The standard setting bodies, however, have not deliberated on some vital issues which were discussed in academic circles. For example, they maintained silence on the method of depreciation to be adopted in specific cases. The conditions under which any particular method may be suitable are not indicated specifically. They did not raise the important issue of relationship between repairs and maintenance program of the enterprise and depreciation etc.

Anyway, the impact of accounting standards on accounting for depreciation is found to be mixed one. The crux of the problem studied in Chapter - Four, that how to ensure uniformity in accounting for depreciation still exist. Complete uniformity is not yet ensured. But, the guidelines regarding
systematic allocation of fixed asset, consistent use of depreciation method, disclosure requirement, treatment of residual value, depreciation on land etc. will definitely reduce the scope for variation. If compliance with the accounting standards on depreciation can be ensured, it will help harmonising the accounting for depreciation to a great extent. Hence, in the light of the present context, it may be inferred, setting of the standards are justified, even though they are not fulproof.

Inventory

What is procured and/or manufactured in an accounting year is not usually sold in the same year in full. Hence, rises the question of valuing the unsold stock for preparing annual financial statement. But, how should they be valued is a critical issue to the academicians, professionals and executives. They differ widely on the issues. These are presented in Chapter - Five. Inventory comprises a very significant portion of resources of many business concerns. So, valuation and presentation of inventories have a great effect on their profitability and financial position both for current and subsequent years. If the differences exist in the accounting treatment of inventory, it will not be possible for different users of accounting statement to make objective judgement and take wise decision. So, necessity of reducing the differences was urgently felt. With a view to reducing these variations and ensuring uniformity in the accounting treatment of inventory, accounting standards are formulated by various standard setting bodies at notional and international
levels. Study of the standards reveals that all the important issues relating to inventory accounting on which academicians and professionals are debating since long past are given the concrete shape in the form of recommendations. These issues are: principles of inventory valuation, process of comparison between cost and net realisable value, elements of cost to be included in inventory, possibility of allocating overhead other than production overhead to cost of inventory, treatment of exceptional amounts of wasted material, labour and other expenses, cost formula to be adopted, computation of net realisable value of inventory, process of classification of inventory, disclosure requirement of inventory accounting (vide comparative study, page nos. 154-165). On the major issues they agree and some other issues are still unsettled.

The areas where views are in common are: the inventory be valued at cost or net realisable value whichever is lower, comparison between cost and net realisable value should take place for each individual item separately as far as practicable, the exceptional amounts of wasted material, labour and other abnormal expenses should not be included in cost of inventory, the inventories should be presented in financial statement according to some classification, the cost formula used and the policy adopted for inventory valuation be disclosed and that the effect of change in accounting policy in respect of inventory valuation should also be disclosed in quantified form (vide empirical findings, page nos. 171-178).
The major areas of variation are: whether the administration, selling and distribution overhead be allocated to cost of inventory or not, whether or not the FIFO, LIFO, Average or any other formula be adopted for ascertaining historical cost of inventory, etc. (vide empirical findings, page nos. 171-178).

Thus, it can be concluded that complete unification in the valuation and presentation of inventory is not yet ensured. Scope for variation still exists. But, if the recommendations of the standards are complied with sincerely and objectively, existing variations will definitely come down to a large extent. So, emergence of account standards on inventory can be viewed as a great breakthrough in the process of uniformity in the valuation and presentation of stocks and work in progress. Thus, it is evident that benefits of these standards outweigh their limitations.

Research and Development Costs

Research is necessary for developing new techniques and finding out new product lines. It is an expense for exploration. But, it is not possible to predict whether the exploration will be successful. Hence, arise the questions: how such cost be treated in accounts. Should they be capitalised? Or should they be treated simply as revenue expenses?

Academicians, professionals, business executives and other related parties have been debating since long past on the issue. They dwelt on: what items of expense should constitute
such cost, how should such items be treated in accounts, the guidelines as to capitalising such costs, adoption of uniform accounting policy for the purpose, the provision for regular reviewing the adopted accounting policy on the same and on the issue of writing back the cost written-down earlier (vide comparative study, page nos. 218-228). Barring minor variation, they agree on the points; that development costs should be capitalised if it can be recovered out of expected future benefits, that the accounting policy adopted for this purpose should be followed uniformly, that the adopted accounting policy should be reviewed annually (vide empirical findings, page nos.231-238).

The area of controversy is whether the pure and applied research costs may be capitalised or not. Difference of opinion exist on the issue of writing-back R&D costs which was written off earlier (vide empirical findings, page nos. 231-238). Anyway, the crux of the problem lies with the inherent peculiarity of the item that the cost can not be directly identifiable with the output and hence is it difficult to suggest whether it should be capitalised or should be treated as revenue expense uniformly under all circumstances.

Thus, accounting treatment of R&D costs are found to vary from person to person, firm to firm and industry to industry. With a view to minimising the diversity in practices and to ensure uniformity in the accounting treatment of R&D costs, accounting standards are formulated at national and international levels. Study of the standards reveals that academic
discussions, professional views and executive instructions have contributed greatly to the standard setting process.

Comparative analysis of the accounting standards on R&D costs formulated by various standard setting bodies shows that their recommendations regarding accounting treatment of R&D costs are not always similar. American standard suggested that all R&D costs should be charged against revenue of the year in which costs are incurred. But, International, Indian and English standard, while inclined to write-off method, allowed capitalisation provided such costs can definitely be recovered out of the expected future benefits. Stringent conditions, regarding economic and technical feasibility of R&D projects, are imposed for testing the possibility of recovering the R&D costs out of future revenues.

The results of empirical study conducted for verifying the justification of the standards reveal that while some issues are settled, differences of opinion persist and debate is still continuing on some other issues. These unsettled issues require further investigation.

The crux of the problem, whether R&D costs should be capitalised or not still exist. Our investigation helps us to suggest that a portion of R&D costs proportionate to the probability of success of the R&D Project may be capitalised. Here again the concept of classical probability may not be valid in the measurement of probability of success. Its measurement is a critical problem which requires techno-economic enquiry.
Accounting standards have not yet ensured complete uniformity in the accounting treatment of R&D costs. But, formulation of the standards is undoubtedly a step forward and accordingly, setting of the standards are welcome, for it has contributed greatly towards the process of introducing uniformity in the accounting treatment of R&D costs.

Propriety of the standards and concluding comments

To sum up, let us examine, how far the standards are proper or justified for the purpose for which they are meant for. The basic objectives of accounting standards are to minimise the differences among accounting policies and practices, to harmonise the method of Judgement and thus increasing the degree of uniformity in corporate financial reporting. Now, let us examine, how far these objectives are fulfilled. Differences in accounting practices, it appears, are the roots of all troubles. Hence, it is the natural expectation that standards are capable of minimising them. But, are the differences in practices identified? If identified, are the causes of differences unearthed? Unless it is done, uniformity at theoretical level may be ensured but it can not be claimed that uniformity in practice is automatically ensured. However, that does not mean, uniformity in accounting policies is of no use. It, atleast, helps harmonising accounting practices through minimising the scope for variations therein.

Moreover, standards are necessary to serve the users of accounting information. Here, needs of the users for whom
the standards are meant for have been identified neither theoretically nor empirically. Moreover, standard setting bodies of all the countries are not properly represented by various interest groups like investors, financial analysts, academics so forth and so on. Here various lobbies work, as a result interest of powerful lobby is served. In some cases the members try to accommodate all groups of interest and as a result, the ultimate products represent average of opinions, instead of formulating what is necessary to make justice to all the people concern. It is evident that the lobbies are so powerful, the standard setting bodies are sometimes forced to withdraw well formulated standard at the pressure from several concerns.

However, justification of accounting standards formulated by different countries should be examined with reference to the fact that economic characteristics of the respective countries are different and necessary provision should be made to accommodate the impact of such features in the standards of the respective countries. Otherwise, there is no justification to set up standard setting bodies in each country - the International accounting standard alone could serve the purpose.

So far as the accounting standards in India are concerned, these are found to be almost similar to those promulgated by International standard setting bodies like IASC. Even though there are slight variations in Indian standards, it can not be claimed that such provisions are made only to accommodate all the specific characteristics of Indian situation, inspite of
the fact that it was one of objectives of Indian standard setting authority. Under this circumstances, standard setting in India appears to be somewhat ceremonial.

Anyway, justification of accounting standards can be upheld on the ground that they provide scope for ventilating opinions of the people concerned through exposure draft. Moreover, people representing different interest-groups agree before the recommendations of the standards are formulated. Through the standard setting process, it becomes easier to identify the differences of opinions and consequently the problems involved can be solved easily. Most of the recommendations made by various standard setting bodies are found to be common.

Besides, they are also supported by various groups of users as evident from empirical study. Hence, if recommendations made in the accounting standards are followed, there is no doubt, it will upgrade the accounting statements to such an extent that different users will be in a position to make more objective evaluation before taking wise decision. Above all, the accounting standards facilitates to enhance the degree of uniformity in corporate reporting which is the basic objective of setting the standard. Accounting standards can be called proper if the basic objective for which they are promulgated are fulfilled. Now, the basic objective is to increase the degree of uniformity and comparability. This objective, it is evident from the empirical findings and the study, has been fulfilled. Hence, the accounting standards are proper.
However, the overall situation is that there is already a flood of accounting standards across the world with a clear sign of fresh inflow. They cover a very wide area of accounting practices. With the arrival of new shipment of accounting standards, they will have a good command over the whole of accounting education and profession. Recently the standard setting bodies have taken up the program of review and necessary revision of their existing accounting standards to suit them to the changing situation. Thus, although the accounting standards cannot be treated as the sole guarantor of 'True and Fair' view of accounting statements and also their comparability, they undoubtedly provided a breakthrough in introducing uniformity in the accounting profession across the world.

The endeavour in this study covers only four major accounting standards as sample. It aims to identify the overall feature of the standards. The study does not claim that its findings and conclusions are applicable to other standards also. But it provides an indication and further investigation, it is expected, will help settle the intriguing issues pointed out in this endeavour.

For the purpose of eliminating the existing limitations and ensuring further improvement of accounting standards, following suggestions may be forwarded:

i) Accounting standards should be more specific in their recommendations.
ii) Existing variations in practices should be surveyed at firm, industry, national and international levels. These should be analysed, causes of such variations should be identified, remedies should be enquired and necessary remedial actions should be taken.

iii) U.N.O. effort for harmonisation should be encouraged for the purpose.

iv) A system for maintaining a register of variations in practices should be made. Mere reference in auditors' report as to the deviation from accounting standards would not be sufficient. Such variations should be compiled by the professional institutes to have an idea as to what is going on in practice. It will help revise existing standards to meet the immediate needs.

v) Mere formulation of standards is not enough. Steps to enforce the same should be taken. They should be made mandatory by incorporating them in laws of the land.

vi) Scope for personal judgement should be minimised as far as possible so that accounting statements could be objective, reliable and authentic.

Accounting standards could not accommodate all the requirements suggested by the academicians. In that sense, it
may be said, they are inadequate or not fulproof. From that consideration they might be called improper. But, considering all the circumstances together, the standards so far discussed make a break-through in introducing uniformity directly in accounting policies and indirectly in accounting practices across the world. Hence, it may be observed that the accounting standards are proper even though there is scope for further improvement.

The accounting standards at least ensured uniformity in accounting policies and it is the beginning. In time, it will help develop quality of reports, minimise the scope for committing frauds and enhance the credibility of accounting statements.