CHAPTER - ONE

INTRODUCTION
The object of the study

Today, users of accounting standards do not confine only to owners, creditors and employees of the concerned companies, they embrace also investors, bankers, financial analysts and others within and outside the country who are not directly related to the company. Companies hold colossal shapes and involve pre-pondous investment in the shape of debt and equity. People in the capacity of creditors, investors, management etc. across the world are interested in corporate financial reports. They want to compare the statements for investment decisions. But comparison among various objects requires that all of them should be measured by common denominator. Hence, standard principles and standard policies on accounting are indispensable to act as a common denominator for the purpose.

This apart, uniformity in accounting policies and practices is necessary for safeguarding the interests of existing investors, creditors and other related people. In absence of the same there remains the scope for variation in disclosing the economic activities. Such a scope assists people at the helm of enterprise to manipulate the accounts, to misrepresent the facts and to mishandle the resources entrusted to them by the absentee owners and creditors. In earlier years, particularly in the thirties, in USA the wide

scope of personal judgement in adopting accounting policies helped the management to misappropriate funds through misrepresenting the economic facts. As a result, there was a great economic crash. Almost similar was the case in UK in late sixties. Hence public opinion became conscious and profession was highly criticised. The Professionals, academicians and public at large discussed and deliberated on the issues and felt the need for adopting standard accounting policies as guidelines for the profession as well as for the users of accounting statements. Because of this type of crisis, standards were set in almost all developed and developing countries across the World to ensure or atleast introduce uniformity in corporate disclosure through financial accounts.

Introducing uniformity in accounting policies and practices at national and international levels is the basic objective of such standards. It facilities comparability with the object of preventing, atleast minimising, frauds and manipulations in industries. It assists the growth of capital market at national and international levels. For the purpose,  


various aspects or problem areas of accounting have been analysed and a number of standards have been promulgated from time to time by various standard-setting bodies. How these standards have been set, what the burning problems are that enforced setting the standards, how the authorities spent their energies and resources in thrashing out or finding out the solution, where they agree, where they differ, the reasons for such differences need enquiry. Professional, government and academic bodies across the World have been pondering over the issues since thirties of this century. Standards set earlier are re-examined subsequently and new standards replace the old ones. But until seventies there was no attempt to co-ordinate the standards of various countries. Only in 1973 an attempt was made in that direction and consequently International Accounting Standard Committee had been formed.

This study aims to enquire, how far the above objectives, (as mentioned in preface to the International Accounting Standard and other similar standards), of increasing the degree of comparability of financial statements and enhancing the credibility of their consequent usefulness has been fulfilled.

The scheme of the work

Materialising the above mentioned objectives in action requires close scrutiny of the accounting standards set by major standard setting bodies. But, till now they have
set a large number of standards. It is very difficult to cover all the standards in one study. That is also not necessary, the study assumes, for forming an idea about the degree of uniformity or harmony among accounting practices and policies introduced at the national and international levels. Hence, for the purpose only four major areas covered by most of the standard setting bodies at the early stage of their standard setting programme have been selected.

For the purpose of the enquiry, whole study has been divided in seven chapters. Besides chapter-1, which by way of introduction attempts to identify the problems, delineates the scope of the study and states the methodology of the work, the other chapters cover the actual research study.

Of the actual study, while chapter-2 explores the growth of accounting standards and appraises their theoretical constructs in general, the remaining chapters deal with some major issues on which standards have been set. By way of

5. For instance, in USA, FASB has promulgated 105 FAS upto March 1991, 24 SSAPs are published in UK upto 1988, IASC has issued 29 IAS upto 1989 and 11 AS are promulgated in India upto March 1991.

6. They are: Accounting Standards on:
   i) Disclosure of Accounting Policies,
   ii) Depreciation,
   iii) Valuation and Presentation of Inventory, and
   iv) Research and Development Costs.
explaining first the usual meaning of accounting standards, the second chapter describes the needs that forced setting the standards, the present position of the standards in some major countries and the process of setting standards as is usually adopted in various countries. Subsequently are presented the general comments on whether or not the standards could be called theories. Advantages and limitations are also discussed before concluding the chapter.

Chapter-3 is involved in studying the accounting standards on Disclosure of Accounting Policies. Since all corporate financial reportings centre around the issue of disclosure, this area attracts great attentions of the people concerned from the very beginning of corporate reporting. That is why this chapter surveys first the ideas of great thinkers, compares and contrasts among IAS (International), AS (Indian), SSAP (UK) and academic views, empirically verifies the opinions of academicians, professionals and the people in the industry and locates the areas of agreement and disagreement. Ultimately, it points out the areas requiring further investigation.

Chapter-4 is devoted to examining accounting standards on Depreciation. Depreciation occupies the attention of the people concerned since the beginning of going concern business when began heavy investment in capital goods. As its measurement has a great impact on the reported profit, professionals, academics and industrialists pondered over greatly on
the issue. Having discussed the academic views in brief and finding out the similarities and differences among the standards set by different bodies, this chapter studies the opinion of selected academicians, professionals and business executives on the issue and singles out the debatable areas requiring further investigation.

Valuation of inventory is also a very controversial area and chapter-5 is engrossed with the study of the standards set on the same. Like the previous chapters here also the conceptions of the thinkers on the issue are delineated; standards set by IASC, India and UK along with academic views are compared and the opinions of selected people concerned are presented. Subsequently, their differences are analysed and ultimately the debatable points are identified to locate the unsolved areas requiring further enquiry.

In this competitive age, business enterprises spent a lot on research and development for their survival and growth. But how such expenses be treated in accounts is controversial. Chapter-6 considers major accounting standards on the issue. It sketches academicians' opinions on the issue, compares the standards set by the standard setting bodies, points out differences, collects the opinions of some authorities and thrashes out the unsolved issues requiring further attention.

Chapter-7 summarises the study made in the previous chapters, appraises them and concludes with some suggestions.
Methodology

The work aims neither to prove nor to disprove any pre-conceived hypothesis. On the contrary, the whole exercise accomplished here is mostly conceptual. Attempts, however, have been made to find out whether or not the conceptual analysis is supported by empirical evidences. Since the basic object of the work is to study how far the major accounting standards set by various bodies are capable of introducing uniformity in accounting practices and procedures across the world, it is necessary to enquire, how far the standards are in conformity with the reasonings of the thinkers of the discipline, how far the standards set by different bodies are uniform and what opinion do the various groups of people like academicians, professionals and business executives related to the field hold on these standards.

For the purpose, the four important problem areas on accounting as referred earlier in page-4 have been selected. In each case, ideas of the academicians have been discussed first. Subsequently the standards promulgated by International Accounting Standard Committee (IASC), Accounting Standard Committee (ASC) in UK, Institute of Chartered Accountants of India and academic views have been compared and contrasted in detail. An opinion poll on the justification of the study have been taken on the issues raised in the standards. For the purpose a suitable questionnaire was drafted and copies of the
same was sent to 80 academicians, 60 professionals and 65 business executives. Replies are examined, the areas of agreement and disagreement are pointed out and attempts are made to interpret the causes of the variations. This leads to single out the areas which require further research investigation. By way of conclusion, some suggestions have been provided for the same.