CHAPTER 6

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6.1 Summary of the findings:

Study of accounting practices is very important to judge reliability and relevancy of accounting information. Accounting is the one and only means by which economic events are recorded and results of such events are communicated to external users. With the increase in the complexities of business world, accounting personnel have to play the role of information providers. Now, in every sphere of business decisions, accounting information plays a dominant role. Due to globalization and emergence of WTO regime, the economic environment of the world has changed and political boundary among the countries in the world has phased out. People get opportunity to do all economic activities across the political boundary. In this changing scenario, a country having good quality of accounting information can attract capital from all corners. Therefore, development of good quality of accounting and reporting practices is the most important challenge for the country to exploit the advantages of free market economy. India being an important emerging economy in the world, the country needs capital to finance its growth process. To meet the needs of capital requirement the only solution is to attract capital from out side the country by making reliable and relevant information available to users. For that, study of
accounting and reporting practices in the present context is gaining importance. The important observations made during the present study on accounting and reporting practices, are briefly summarized below:

Chapter one is the general introduction of the research problem. The chapter highlighted the role of accounting as an information system that is used by different users to take economic decision. Accounting system produces different types of information that can be used by both internal and external user. Financial accounting is one of such accounting information that is communicated by the management to the external users to take decision about the business. Better quality of information can influence the economic decisions of users and channelize the investors, customers, lenders' decisions in favour of the business. Accounting is the product of environment. The economic environment of the country has changed after the globalization. The accounting and reporting practices have to change in the tune with such changes. As globalization and liberalization reduce the geographical distance, so accounting information system, has to reduce the difference. Again, in the globalized environment, where there is a cut-throat competition, the use of user-friendly accounting system combining financial and non-financial information can help the entity to take the advantages of free market economy.

Chapter two is the review of literature. In this chapter, a brief discussion has been made on the history of development of accounting. From the study of history of development of accounting, it has been found that, accounting practices have developed in fifteen B.C. The modern form of accounting has been developing gradually with the development of different forms of the business. Due to development
of society and business, many new areas of accounting have been emerging to provide informational needs of users of accounting.

Chapter three, is the study of accounting regulatory framework in India. The study reveals that in our country there are different regulatory agencies that regulate the accounting and reporting practices. In case of corporate entities, having general businesses accounting and reporting practices are regulated by the Department of Corporate Affairs (DCA), Securities, Exchange Board of India (SEBI), and Accounting Standard Board (ASB) of Institute of Chartered Accountant of India (ICAI). Department of Corporate Affairs issued various rules for accounting and reporting through Companies Act. The Act stipulated the books of accounts to be kept and various informations that are to be disclose in the board of directors’ report. Such Act also specifies the forms of presentation of Balance Sheet. The main objectives of such rules are to ensure true and fair presentation of accounting information. The Act also made provision for statutory audit of accounts, by independent statutory auditors and reports in some specific matters under Companies (Auditor’s Report) Order, 2003 and attachment of such auditor’s report in annual reports.

Securities Exchange Board of India (SEBI) issued different guidelines through Investors (disclosure and investors’ protection) guidelines 2000. Under clause 32 and clause 49 of the SEBI Act 1992, a listed company requires to disclose some specific information in the annual report to enhance transparency of accounting information. Transparency of information helps the investors to protect their interest and reduce the possibility of insider trading, which helps in healthy growth of the capital market of the country. Such rules have been modified as per requirement of the environment.
Accounting Standard Board (ASB) of Institute of Chartered Accountant of India (ICAI) has their own mandate on accounting and reporting practices. Such body issued Accounting Standards, the specific rules on accounting measurement and disclosure issue to standardize the accounting practices and harmonize diverse accounting practices. So far, ASB in India issued 29 accounting standards covering different aspects of the business in different types of industry. The sub-section (3A) to section 211 of Companies Act 1956 (Amendment Act 1999) made compliance of accounting standard mandatory for companies. Again, SEBI also made it mandatory for all listed companies under clause 50 of the listing agreement. As a result, corporate entities in India are now have abide by the provisions of accounting standards in preparation and presentation of accounting information.

In formulation of Accounting Standards, the Accounting Standard Board (ASB) gives due consideration to international development and tries to harmonize Indian Accounting Standards (AS) in conformity with International Accounting Standards. The study of provisions of Indian Accounting Standards (AS) with International Accounting Standards (IASs), it has been found that, in some aspects there is difference between AS and IAS and in some other areas no provision is found in AS. Though such difference is not so significant, still it can make difference in accounting information.

Chapter four is the analysis of existing corporate accounting and reporting practices. In the chapter, accounting and reporting practices used by sample companies have been analyzed. From the analysis of existing accounting practices, it has been observed that Indian corporate accounting and reporting practices is the product of legal provisions and Indian Accounting Standards. Corporate entities are
strictly followed the provisions of Indian Accounting Standards, Companies Act on measurement and disclosures. In respect of measurement of accounting results, corporate entities maintain almost uniformity, in spite of alternative provisions in many areas. However, in certain areas, where right has been given to management to determine accounting policy, some sort of variation has been noticed among the companies like, the use of specific cost identification method in case of inventory, depreciation method, determination of useful life of a fixed asset. All companies disclosed all the information required to disclose as per provision of Indian Accounting Standards, Companies Act and SEBI listing requirement. Some additional information such as social responsibility, environmental initiatives, economic value addition, risk reporting, human resource accounting, current cost statement etc. are also disclosed voluntarily by some companies either as additional information or in the board of directors' report. Such voluntary disclosures are mostly non-financial in nature. Such disclosures show lack of uniformity and are purely descriptive in nature. However, the disclosure of such voluntary information has been increasing with passes of time.

The study reveals that, accounting practices have been changing over the time due to improvement of accounting rules. During the study period, Accounting Standard Board has enforced some new accounting standards like Segment reporting, Accounting for intangibles, impairment of assets and some standards have been modified. As a result, companies apply such standards to their own practices that lead to change in existing accounting and reporting practices. It is also noticed that a few companies used such newly issued accounting standards even before making it mandatory by Accounting Standard Board. Therefore, we can conclude that
accounting environment needs such change either for better measurement or for increase of transparency of accounting information.

Considering the use of provisions of International Accounting Standards (IAS) in Indian corporate entities, there is a possibility of having difference in accounting results from the existing results due to presence of some difference. For example, in Indian accounting standard there is no provision relating to cost of inventories of service provider, as a result service providing entity Infosys Technology Limited does not disclose any inventory in their accounting report, but the company has incurred some cost for labour and other personnel directly engaged in production. As a result, the profit/loss of the company may be undervalued. However, in some areas, where Indian accounting rules are silent, many companies follow the rules given in International Accounting Standard. For instance, though Indian accounting standard does not provides for inclusion of borrowing cost to inventory having substantially longer period, Larsen and Toubro Limited included cost of borrowing fund used for inventory having substantially long production cycle with cost of inventory.

In the fifth chapter, from the analysis of opinion of respondents, it is concluded that accounting practices of the country has been changed specially after globalization. Globalization opens the path for doing economic activities across the country and integrated capital market all over the world, consequently, many new business consequences have arise after globalization. Responding to such changes Accounting Standard Board of the country, tries to harmonize the accounting rules with internationally accepted rules. As a result, many new accounting standards have been issued, which lead to change the existing accounting and reporting practices. The present accounting practices which is at par with international accounting standards
can able to attract foreign capital. However, as accounting environment of the country is different, so still some minor differences exist between International Accounting Standards and Indian Accounting Standards. Due to existence of legal provision and difference in economic environment of the country, it is not possible to make it uniform in present environment. This makes difference in Indian accounting and reporting practice, which can affect our entity to take full advantages of the free market economy. It increase the cost of accounting information for entities, as entity have to incur additional cost either in preparation of reconciliation of accounting statement with GAAP of the foreign country or conversion of accounting statement into other country GAAP for making such information understandable to foreign users.

Considering the present disclosure system, it is concluded that, present system information disclosure in annual reports can give only limited information to the external users. Such information is not able to fulfill the expectations of the investors as it gives only the summary of results and hints to accounting policy. The present regulatory framework that provides guidelines for measurement and disclosures of different aspects is not effective to protect the investors. The present accounting system have many loopholes, by taking advantages of such loopholes management can easily manipulate accounting results and can deceive the external users.

In case of voluntary disclosures of information, it has been found that social responsibility disclosures and environmental disclosures are gaining importance in present environment as social awareness has increased. Stakeholders become more conscious about societal contribution of the business and sustainable economic development. The disclosures of social responsibility can give an account of social
contribution of the business to the society and environmental disclosures can disclose whether the growth is sustainable or not. In case of human resource valuation although need is considered by the sample respondents but valuation and disclosure have not been found satisfactory in corporate accounting disclosures. Only one Sample Company i.e. Infosys Technology Limited valued their human resource and disclosed such in annual reports.

6.2 Conclusions of the Study:

From the above study, the following conclusions can be drawn:

1. Accounting and reporting practices is a very important aspect for economic development of a country. Accounting and reporting practice influence the quality of accounting information of an entity. Sound accounting information has the capacity to influence behavior of users of such information. Our economy being a global economy, by adopting proper system of accounting and reporting practices it can attract foreign investors and customers that can help the economic growth of the country.

2. In our country corporate accounting and reporting system has been operating under the umbrella of multiple regulations. The Companies Act 1956 (and its subsequent amendments) issued by government under Department of Corporate Affairs, SEBI Act 1992 under (disclosure and Investors’ protection) guidelines 2000, and Accounting Standards (AS) issued by Accounting Standard Board of Institute of Chartered Accountant of India (ICAI) plays a very important role in measurement and disclosure issues of corporate accounting information.
3. Accounting Standard Board of Institute of Chartered Accountant of India (ICAI) is playing a vital role to enhance quality and uniformity in accounting practices in India and develop internationally compatible accounting practices by setting Accounting Standard according to the need of the environment and global development.

4. It is not possible to have a complete uniform accounting practices in national level as well as global level due to the difference of legal provisions, business environment, customs, traditions etc. Therefore, though effort has been made by ASB to develop accounting standard in conformity with International Accounting Standards, but some difference still exist between the two. Again, there are some areas, where existing Indian accounting standard is silent.

5. Accounting is the product of socio-economic environment. In many areas of accounting practices have been changing due to increase in the competition, and improvement of technology to represent accounting information in a better way either under compulsion or voluntarily. Such changes in accounting practice increases the transparency of accounting information and can provide more information for decision-making.

6. The accounting and reporting practices used in India is found almost uniform where regulatory bodies issued relevant set of rules for preparation of accounting information. The availability of alternative set of rules and independence of management to select accounting policy make accounting information different to some extent. However, consistency in use of same accounting policy and provision of statutory audit by external auditors make such information reliable.
7. Indian corporate entities are trying to disclose some information voluntarily in line of international development to enhance transparency and to take advantage of global operation. Such disclosures show an increasing trend. However, most of such disclosures are in descriptive forms.

8. In case of voluntary disclosure of financial and non-financial information, there is a wide variation in contents of information from entity to entity. Even in some of the emerging areas like, social responsibility accounting, environmental accounting, risk reporting, such variations are noticed. Such disclosures are very important in the present context.

9. A complete set of uniform accounting principle is very essential to operate in globalize environment. In the absence of uniform accounting rules, Indian corporate entities that are operating in global market have to restate their financial statement into foreign GAAP and disclose other information voluntarily as per global standard. This increases cost of the accounting information. As a result, such entity is unable to take full advantages of free market economy.

10. The present system of corporate reporting practice in our country cannot give full information to external users. The annual report, which is used as a means of external reporting, can convey only limited information to external users.

11. In accounting rules there are some areas, where alternative provision is available. In such situation, it is expected that the management can take suitable decision to reflect the best results. As a result, path is open for the management to manipulate the results as per their convenience.
6.3 Suggestions:

Based on above findings the following suggestions can be given for the future development of accounting and reporting practices.

1) To reduce the cost of accounting information in the global operation, Indian Accounting Standard Board and other relevant statutory bodies should permit the use of International Financial Reporting Standards (IFRS) as alternative to Indian Accounting Standards. Likewise, other disclosures of required information as per Companies Act and SEBI Act should be continued as additional disclosures.

2. Being the (ICAI) Institute of Chartered Accountant of India is a member of International Accounting Standard Board (IASB), it should persuade IASB to incorporate some guidelines in the areas where Indian legal bodies gives mandate like methods of depreciation, rate of depreciation etc. so the in absence of prevailing legal provisions, the IFRS can provide the same for the companies adopted IFRS.

3. Accounting Standard Board of India should try to put clear-cut rule in those areas, which are still absent in the existing standard, like cost of inventory for service industry, revenue recognition for exchange transaction, inclusion of borrowing cost of inventory etc.

4. The alternative set of accounting treatment should be removed as availability of such alternative can hamper uniformity of accounting information and opens the scope for manipulation of accounting information within the circle of accounting rules.

5. In some situations where single rules cannot reflect the true and fair view of the state of affairs there should be provision for benchmark treatment and alternative
treatment. When alternative treatment is being used, there must be a clause that
management should give appropriate explanation by stating appropriate reasons for use
of alternative provision. Another solution for alternative treatment is the provision for
industry specific accounting treatment. The provision of industry specific accounting
treatment can reduce choice of management in accounting policy and enhance
uniformity of accounting information.

6. To meet the gap between investors’ expectations and availability of information, the
Department of Corporate Affairs should consider for the inclusion of some non-
financial information like forward looking statement, risk reporting, environmental
disclosures, social responsibility disclosures etc.

7. To have uniformity in the disclosures of non-financial information statutory
authorities like Department of Corporate Affairs should give proper guidelines for
disclosures of information, which companies must have to disclose clearly in their
accounting reports.

The implementation of above can make accounting information more reliable,
relevant. The quality of relevance and reliability can increase the confidence of users
of accounting information. However, accounting and reporting being influenced by the
environment, the changing environment can lead the country for adoption of
comparable accounting system. But, early development of a sound accounting system
helps the country to exploit the competitive advantages of free market economy, which
can put forward the country in an advantages position than the competitors. Indian
being a global economy, so it should try to take full advantage of globalization.

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