CHAPTER - 4

ACCOUNTING STANDARD SETTING
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1. Introduction

The comparative study of financial reporting begins with this chapter. The accounting standard setting in India by the ASB, in the USA by the FASB and at the international level by the IASB is discussed in this chapter. The structure, composition and the functions of these standard setters and the process of standard setting is compared in this chapter. Observations about the Indian standard setting institutions and the standard setting process are noted and suggestions for improvement are discussed.

2. Accounting Standards Setting in India

The Institute of Chartered Accountants of India (ICAI) is a statutory body established under the Chartered Accountants Act, 1949 for the regulation of the profession of Chartered Accountancy in India. In addition to regulating the profession, the Institute is a national standard setting body in India. The ICAI also issues from time to time various Guidance Notes and Interpretations for the guidance of its members on various new issues.

The affairs of the Institute are managed by the Council. The Council consists of 30 members of whom 24 are elected by the Members of the ICAI and remaining 6 are nominated by the Central Government to represent the Comptroller and Auditor General of India (C&AG), Central Board of Direct Taxes (CBDT), Ministry of Company Affairs (MCA), and other stakeholders. The Council functions through 3
Standing Committees and 16 Non-Standing Committees for carrying out the provisions of the CA Act

2.1 Institutions Involved in Indian Standards Setting

2.1.1 Accounting Standards Board (ASB)

The Accounting Standards Board (ASB) is a Non-Standing Committee of the ICAI. It was constituted by the ICAI on April 21, 1977 to formulate accounting standards. While formulating accounting standards, the ASB takes into consideration the applicable laws, customs and business environment prevailing in the country. The ASB also gives due consideration to IASs / IFRSs issued by the IASB and tries to integrate them, to the extent possible, in the light of conditions prevailing in India.

The ASB is independent in the formulation of accounting standards to the extent that the Council cannot make any modifications in the draft accounting standards formulated by the ASB, it can only be done in consultation with the ASB.

ASB has been constituted to achieve following objectives:

a. To suggest areas in which accounting standards need to be developed.

b. To formulate Accounting Standards.

c. To integrate, to the extent possible, IAS and IFRS issued by IASB, in the light of conditions and practices prevailing in India.

d. To provide interpretations and guidance on issues arising from accounting standards.
e. To review the accounting standards at periodical intervals and if necessary, revise them.

**Members**: The composition of the ASB is broad-based with participation from all interest-group viz. industry like Associated Chambers of Commerce (ASSOCHAM), Confederation of Indian Industries, (CII), various departments of government and regulatory authorities (like MCA, CBDT, C & AG, SEBI and Central Board of Excise and Customs), financial institutions (RBI), academic and professional bodies (such as Universities, IIMs). On an average the ASB consists of 21 members, including 13 members of the central council of the ICAI and 8 other co-opted members. None of the members are full time members.

**2.1.2 National Advisory Committee on Accounting Standards (NACAS)**

NACAS was constituted for the first time in August, 2001. Accounting standards in India now mean the standards of accounting recommended by the ICAI and prescribed by the Central Government in consultation with the NACAS constituted under Sec. 210A (1) of Companies (Amendment) Act, 1999.

**Objectives**: The NACAS shall give its recommendation to the Central Government on such matters of accounting policies and standards as may be referred to it for advice from time to time.

**Members**: The NACAS consists of 12 members, with a representative each from the ICAI, the Institute of Cost and Works Accountant of India, the Institute of Company Secretaries of India, Central Government, Reserve Bank of India, Comptroller & Auditor General of India, academics, Central Board of Direct Taxes, Securities & Exchange Board of India and two members to represent the chambers of commerce and industry to be nominated by Central Government.
2.2 The Standard Setting Process (Due Process) in India

a Identification of broad areas by the Accounting Standards Board (ASB) for formulation of accounting standards

b Constitution of study groups by the ASB to consider specific projects and to prepare preliminary drafts of the proposed accounting standards

c Consideration of the preliminary draft prepared by the study group by the ASB and revision, if any, of the draft on the basis of deliberations

d Circulation of draft of accounting standard to the council members of the ICAI and specified outside bodies such as Ministry of Company Affairs (MCA), Securities and Exchange Board of India (SEBI), Comptroller and Auditor General of India (C & AG), Central Board of Direct Taxes (CBDT), Standing Conference of Public Enterprises (SCOPE), etc, for comments

e Meeting with the representatives of the specified outside bodies to ascertain their views on the draft

f Finalisation of the exposure draft and its issuance inviting public comments

g Consideration of comments received on exposure draft and finalisation of the draft accounting standard by the ASB for submission to the council of ICAI for its consideration and approval for issuance

h Consideration of the final draft of the proposed standard by the Council of the ICAI, and if found necessary, modification of the draft in consultation with ASB
2.3 Applicability of Indian Accounting Standards

For the purpose of applicability of accounting standards, enterprises are classified into three levels, viz. Level I, II and III. Level II and III are reckoned as Small and Medium Enterprises (SMEs) and following 8 categories of enterprises are classified by the ICAI as Level I enterprises

1. Enterprises whose equity or debt securities are listed, whether in India or outside India,

2. Enterprises which are in the process of listing their equity or debt securities,

3. Banks including co-operative banks,

4. Financial Institutions,

5. Enterprises carrying on insurance business,

6. All enterprises whose turnover, excluding other income, exceeds Rs 50 crore for the last accounting period,

7. All enterprises whose borrowings exceed Rs 10 crore at any time during the accounting period, and

8. Holding and subsidiary of any one of the above

Level I enterprises are required to comply fully with the requirements of all accounting standards. SMEs are granted some relaxations as regards applicability and disclosure of some standards.
2.4 Compliance with Indian Accounting Standards

2.4.1 Compliance and Companies Act

The Companies Act, 1956 u/s 211(3A) requires that every Profit / Loss Account and Balance Sheet shall comply with the Accounting Standards which are recommended by the ICAI and prescribed by the Central Government in consultation with NACAS.

2.4.2 Compliance - Director’s Responsibility Statement

Sec 217(2AA) of the Companies Act casts a responsibility on the Board of Directors to comply with mandatory accounting standards. The Director’s Report should include a responsibility statement indicating therein that the applicable accounting standards have been followed.

2.4.3 ICAI’s Member’s Duty on Compliance

Members of ICAI should ensure that mandatory accounting standards are implemented in the financial statements covered by their audit report. In the event of any deviation from the standards, it shall be their duty to make adequate disclosures in their reports.

2.4.4 Compliance and Listing Agreement

As per Clause 50 of the listing agreement it is mandatory for the companies listed in a recognized stock exchange to comply with all applicable accounting standards in the preparation and presentation of financial statements. SEBI with the help of a Standing committee on accounting standards monitors the compliance by the listed companies.
2.4.5 Financial Reporting Review Board (FRRB)

The ICAI constituted FRRB with an objective to review the compliance, interalia, with the Accounting Standards issued by the ICAI. The FRRB reviews the general purpose financial statements to determine

a. Compliance with the GAAP in the preparation and presentation of financial statement.

b. Compliance with the disclosure requirements prescribed by regulatory bodies, statutes and rules and regulations relevant to the enterprise; and

c. Compliance with the reporting obligations of the auditor.

3. Accounting Standards Setting in USA

Accounting standard setting has a long history in USA. Financial accounting and reporting standards were established first by the Committee on Accounting Procedure (CAP) of the American Institute of Certified Public Accountants (AICPA - 1939-1959) and then by the Accounting Principles Board (APB), also a part of AICPA (1959-1973). The CAP published Accounting Research Bulletins (ARB) (51 in number) and also attempted to achieve uniformity in accounting terminology.

APB issued 31 authoritative opinions on the form and contents of financial statements. APB also dealt with amendments of Accounting Research Bulletins. The Financial Accounting Standards Board (FASB) has been the designated organisation in the private sector for establishing standards of financial accounting and reporting since 1973. The standards issued by the FASB govern the preparation of Financial reports in USA. They are officially recognised as authoritative by the Securities and Exchange Commission (SEC) and the AICPA.
3.1 Institutions Involved in US Standards Setting

**Structure**: All institutions/organisations involved in the standard setting process in USA are part of a structure that is independent of all other business and professional organisations. Following organisations are the part of an independent structure.

### 3.1.1 Financial Accounting Foundation (FAF)

The Financial Accounting Foundation (FAF) is responsible for:

a. selecting the members of the FASB and its advisory council,

b. ensuring adequate funding of their activities, and

c. exercising general oversight with the exception of the FASB’s resolution of technical issues.

The Trustees of FAF are members from organisations like American Accounting Association, AICPA, CFA Institute, Financial Executives International, Government Finance Officers Association, Institute of Management Accountants, National Association of State Auditors, Comptrollers & Treasurers and Securities Industry Association. There are also Trustees at-large who are not nominated by those organisations but are chosen by the sitting Trustees. The Foundation is separate from all other organisations. However, its Board of Trustees is made up of members from constituent organisations having interest in financial reporting.

### 3.1.2 Financial Accounting Standards Board (FASB)

The mission of the FASB is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors and users of financial information. The Board believes that public interest is best
served by developing neutral standards that result in accounting for similar transactions in a like manner and different transactions in a different manner.

Objectives of the FASB are

a) To develop broad accounting concepts as well as standards of financial reporting. Concepts are useful in providing a frame of reference for resolving accounting issues.

b) To provide guidance on implementation of standards.

c) To keep standards current to reflect changes in the economic environment.

d) To promote the international convergence of accounting standards concurrent with improving the quality of financial reporting.

e) To improve the common understanding of the nature and purpose of information contained in financial reports.

The Board’s work on concepts and standards is based on research conducted by the FASB staff and others, including international accounting standard-setting bodies.

3.1.3 Financial Accounting Standards Advisory Council (FASAC)

The FASAC has responsibility for consulting with the FASB as to technical issues on the Board’s agenda, project priorities, selection and organisation of task forces and matters likely to require the attention of the FASB. The Council has more than 30 members who are broadly representative of preparers, auditors and users of financial information.
3.1.4 American Institute of Certified Public Accountants (AICPA)

The Accounting Standards Executive Committee (AcSEC) of the AICPA issues Statements of Position (SOPs) and industry audit and accounting guides, which are reviewed and cleared by the FASB before they become GAAP. SOPs provide guidance on financial accounting and reporting issues. From November 2002, FASB reclaimed the sole authority to promulgate general purpose GAAP, relegating AcSEC to the issuance of industry-specific accounting and auditing standards.

3.1.5 Emerging Issues Task Force (EITF)

The EITF was formed in 1984 by the FASB in order to assist the Board in identifying current or emerging issues and implementation problems before divergent practices become entrenched. Guidance provided is often on narrow issues that are of immediate interest and importance.

3.2 An Open Decision-making (Due) Process

To make the FASB’s decision making process evenhanded, the FASB follows an extensive “due process” that is open to public observation and participation.

1. Adding topics to technical agenda

The FASB receives requests for new standards from all parts of its diverse constituency, including auditors, industry groups, the EITF, and the SEC.

2. Appointment of advisory task force

Task force includes approximately 15 experts, coming from diverse backgrounds. The task force advises the Board and staff on the definition and scope of the project and the nature and extent of any additional research that may be needed.
Arriving at tentative conclusions by FASB and staff after debate, study and research as needed.

Accessibility of meetings

The core of the Board’s due process is open decision-making meetings. All technical decisions are made in meetings that are open to public observation. Broadcasts of such meetings is available at FASB website free of charge.

Public exposure of standards

Each FASB statement or interpretation is issued as Exposure Draft for public comment. If the accounting problem being considered is especially complex, a Discussion Memorandum is also published.

Analysis of comment letters and further deliberations of the Board

The Board considers comments received on the Exposure Draft, and often incorporates suggested changes in the final document. If modifications are substantial, a revised Exposure Draft may be issued for additional public comment.

Approval of final pronouncement by written ballot by the Board

A simple majority of four votes is required for adoption of a pronouncement. The final product of most technical projects is a Statement of Financial Accounting Standards (SFAS).

3.3 The GAAP Hierarchy

The hierarchy of GAAP was developed to provide a means of resolving potential conflicts between the standards by providing different levels of authority.
Category A consists of Statements of FAS and Interpretations (FIN) by FASB, APB’s opinions and Accounting Research Bulletins (ARB). Compliance with Category A GAAP is mandatory.

Category B includes FASB Technical Bulletins (FTB) and if cleared by FASB, AICPA Industry Audit and Accounting Guides and SOP.

Category C consists of AsSEC’s Practice Bulletins (PB) and consensus positions of the EITF.

Category D includes AICPA accounting interpretations (AIN) and implementation guides published by the FASB staff.

4. Accounting Standards Setting by IASB

International Accounting Standards Board (IASB) is established to provide the world’s integrating capital markets with a common language for financial reporting.

IASB is an independent standard-setting board, appointed and overseen by a geographically and professionally diverse group of Trustees (IASC Foundation) and supported by an external advisory council (SAC) and an interpretations committee (IFRIC) to offer guidance, where divergence in practice occurs. All institutions are committed to work in public interest.

4.1 Institutions Involved in International Standards Setting

4.1.1 International Accounting Standards Committee (IASC) Foundation

The IASC Foundation is an independent body that oversees the International Accounting Standards Board. It was formed in March 2001, as a not-for-profit
corporation incorporated in the State of Delaware, US. The IASC Foundation functions through its Trustees. There are 22 Trustees. They are so appointed that there are 6 from the Asia / Oceania Region, 6 from Europe, 6 from North America and 4 others from any area, as long as geographical balance is maintained.

The IASC Foundations’ Constitution provides that the Trustees must show a firm commitment to the IASC Foundation and to the IASB as a high quality global standard-setter and be financially knowledgeable. The governance of the IASB and its related bodies is ultimately in the hands of the Trustees of the IASC Foundation. The Trustees appoint the members of the IASB, the IFRIC and the SAC. In addition they -

a. review annually the strategy of the IASB and its effectiveness.

b. approve annually the budget of the IASB and determine the basis for funding.

c. promote the IASB and its work and promote the objective of rigorous application of IFRSs.

d. establish and amend operating procedures for the IASB, the IFRIC and the SAC. (Constitution, paragraph 20)

The Trustees are not responsible for setting IFRSs. That is the sole responsibility of the IASB.

4.1.2 International Accounting Standards Board (IASB)

The IASB is responsible for issue of IFRSs and final IFRIC interpretations.

On April 1, 2001, the IASB assumed accounting standing-setting responsibilities from its predecessor body, the IAS Committee (IASC) which operated from 1973 until 2001.
The IASB is committed to developing in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

**Objectives** of IASB are:

a. to develop, in the public interest, a single set of high quality understandable and enforceable global accounting standards,

b. to promote the use and rigorous application of those standards, and

c. to work actively with national standard-setters to bring about convergence of national accounting standards and IFRSs to high quality solutions.

**Members**: The IASB consists of 14 individuals (12 full-time members and 2 part-time members). The Trustees appoint the Board members. Members are selected mainly on the basis of their professional competence and practical experience. The IASC Foundation Constitution provides that the Trustees should select the members so that the IASB, as a group, will comprise the best available combination of technical expertise and experience of international business and market conditions in order to contribute to the development of high quality, global accounting standards. (para-20 Part-B, Constitution). The Trustees should also ensure that the IASB is not dominated by any particular constituency or geographical interest. The Board members have a variety of functional backgrounds. The publication of a Standard, exposure draft or final IFRIC Interpretation requires approval by 9 out of 14 IASB members.
4.1.3 Standards Advisory Council (SAC)

The SAC of the IASB provides a forum where the IASB consults individuals and representatives of organisations affected by its work, that are committed to the development of high quality International Financial Reporting Standards (IFRSs).

Objectives of the SAC are:

As a part of that consultative process the SAC gives advice to the IASB on a range of issues which includes, but is not limited to, the following:

a. input on the IASB’s agenda;

b. input on the IASB’s project timetable (work programme) including project priorities, and

c. advice on projects, with particular emphasis on practical application and implementation issues, including matters relating to existing standards that may warrant consideration by the IFRIC.

The SAC also supports the IASB in the promotion and adoption of IFRSs throughout the world. This may include the publishing of articles supportive of IFRSs and addressing public meetings on the same subject.

Members: The SAC comprises about 40 members. The membership of the SAC provides for a broad geographical spread and a range of functional backgrounds that include members drawn from user groups, preparers, financial analysts, academics, auditors, regulators and professional accounting bodies.

The SAC normally meets at least three times a year. The meetings of the SAC are open to the public. IASB members are generally required to attend the SAC meetings.
4.1.4 International Financial Reporting Interpretations Committee (IFRIC)

This is IASB's interpretative body. The IFRIC reviews, on a timely basis within the context of current IFRSs and the IASB Framework, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment.

The IFRIC addresses issues of widespread importance. Objectives of the IFRIC are:

a) to provide timely guidance on newly identified financial reporting issues not specifically addressed in IFRS, or

b) to cover those issues of interpretations where unsatisfactory or conflicting interpretations have developed, or seem likely to develop in the absence of authorities guidance.

The IFRIC thus promotes the rigorous and uniform application of IFRSs. The IFRIC assists the IASB in achieving International convergence of accounting standards by working with national standard-setters to reach similar conclusions on issue where underlying standards are substantially similar.

The IFRIC meets about every six weeks. All technical decisions are taken at sessions that are open to public observation.

Members: The IFRIC has 12 voting members in addition to a non-voting chair. The Trustees as they deem necessary, may appoint organisations as non-voting observers whose representatives have the right to attend and speak at meeting.
4.2 Due Process for Developing IFRSs

IFRSs are developed through an international consultation process, the “due process” that involves interested individuals and organisations from around the world. At various points throughout the due process, the Trustees have the opportunity to ensure compliance. Following are described as the essential requirements of the due process.

- transparency and accessibility
extensive consultation and responsiveness, and

accountability

1. **Setting the Agenda**

Proposed agenda item for the IASB may arise from users’ new needs of information, research by its staff, requests from constituents to interpret or amend existing publications, consultations with SAC or from research project carried out in collaboration with the IASB.

2. **Project Planning**

IASB decides whether to conduct the project alone or jointly with another standard-setter. It then establishes a working group or a project team.

The project plan provides an overview of the proposed time-table, staffing, the documents expected to be provided and the due process to be followed.

3. **Development and Publication of an Exposure Draft**

Development and Publication of an Exposure Draft is a mandatory step in due process. An Exposure Draft is the IASB’s main vehicle for consulting the public. An Exposure Draft sets out a specific proposal in the form of a proposed standard (or an amendment to an existing standard). Normally the IASB allows a comment period of 120 days on Exposure Draft. The project team reviews and analyses the comments received. The IASB may, to explore things further, conduct field visits, or arrange public hearings.
4 Development and Publication of an IFRS

After resolving issues arising from Exposure Draft, the IASB develops an IFRS. The IASB may re-expose the revised proposals for another round of comments. A pre-ballot draft is subject to review by IFRIC.

After the IASB members have balloted in favour of (9 votes in favour), publication, the IFRS is issued.

5 Procedures after an IFRS is issued

After an IFRS is issued, the staff and the IASB members hold regular meetings with interested parties, including other standard-setters, to help understand unanticipated issues related to practical implementation and potential impact on its proposals. The IASC Foundation also fosters educational activities to ensure consistency in application of IFRSs. The IASB may initiate studies to review IFRSs application.
Figure 4.2: Due Process at IASB

INPUT FROM:
- Advisory Council
- Working Group
- International groups: Analysts; Preparers; Audit technical partners
- Special interest groups
- Local standard-setters
- Regulators
- Political groups

(Source: www.iasb.org)
### 5. Comparative Analysis of Accounting Standard Setters

Table 4.1: Comparison of ASB, FASB and IASB

<table>
<thead>
<tr>
<th>No.</th>
<th>ASB (India)</th>
<th>FASB (USA)</th>
<th>IASB (International)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Level of Operations</td>
<td>National - Only India</td>
<td>National - Only USA</td>
</tr>
<tr>
<td>2.</td>
<td>Date of Establishment (original)</td>
<td>1977</td>
<td>1936</td>
</tr>
<tr>
<td>3.</td>
<td>Number of Pronouncements (only accounting standards)</td>
<td>31</td>
<td>163</td>
</tr>
<tr>
<td>4.</td>
<td>Statutory Enforceability</td>
<td>Enforceable</td>
<td>Enforceable</td>
</tr>
<tr>
<td>5.</td>
<td>Organisations Working together</td>
<td>ASB, ICAI, NACAS</td>
<td>FAF, FASB, FASAC, AICPA, EITF</td>
</tr>
<tr>
<td>6.</td>
<td>Level of Independence</td>
<td>Not enough independence</td>
<td>Highly Independent</td>
</tr>
<tr>
<td>7.</td>
<td>Permanent Staff</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>8.</td>
<td>Research Activities</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>9.</td>
<td>Due Process</td>
<td>Neither consultative as IASB nor transparent as FASB</td>
<td>Open and Transparent Process</td>
</tr>
<tr>
<td>10.</td>
<td>Comment Period</td>
<td>60 days</td>
<td>60 days</td>
</tr>
<tr>
<td>11.</td>
<td>Standards available at website</td>
<td>Free of cost</td>
<td>Free of cost</td>
</tr>
</tbody>
</table>

(Source Compiled by Researcher)
Analysis of Table 4.1

Table 4.1 tells us that the ASB of India and the FASB of US work at national level whereas the IASB works at international level. Standard setting has been undertaken in US since 1936, whereas the ASB and the IASB started functioning only after 1970s.

The FASB has produced too much of accounting literature and the ASB has produced too little. Our standard setters are working through a backlog of accounting issues. Probable reason for this could be that the ASB does not have permanent staff. The FASB and the IASB have full-time staff members to work for them. The FASB and the IASB members are selected primarily for their technical expertise. By the very nature of its constitution, the ASB membership would find it difficult to satisfy this test.

The FASB and the IASB are autonomous bodies with their independent funding. The ASB on the contrary is a committee of the ICAI, and is subject to the overall control of the central council. The FASB and the IASB work on a two-tiered structure viz. a Board of Trustees and a standard setting Board. The former will oversee the functioning of the standard setting Board, appoint its members and provide funding but will not participate in the standard setting process. The ASB on the contrary combines both the functions.

6. Observations about Indian Standards Setting

Authoritative support to the standards, and (c) Having Public hearing before Finalisation of Standards were obtained in this work.

Based on users' views, it was summed up that

a) by and large, the users were in favour of wider representation in the ASB by having nominees of various professional bodies in it.

b) users felt there is imperative need to provide authoritative support to the standards and such support can be given by incorporating standards in the Companies Act.

c) by and large, the users were of the view that public hearing should be done before finalisation of standards.

This study was conducted in 1992. Things have changed in 2008. Now composition of the ASB is broad based with participation from all interest-groups. The Companies Act, 1956 Sec. 211(3A) requires that every Profit / Loss Account and Balance Sheet shall comply with the accounting standards. However, our due process needs to be more open. Public participation should be sought at every step in the due process. Indian standard setting process has changed since 1992, but there are still some weaknesses of the system which have to be worked on. Following are the observations of the researcher about the Indian standard setters and the Indian standard setting process.

1. India Way Behind in Development of Accounting Standards

Till 1995 the ASB had issued only 15 accounting standards out of which only 13 were mandatory to all enterprises, Non-mandatory standards were AS-2: Valuation of Inventories and AS-3 Cash Flow Statements.
During 2000-2004, the ASB issued 14 more Accounting Standards. Accounting Standard No. 30 and 31 were issued in 2008. Our standard setters need to speed up the setting process without sacrificing the quality of the accounting standards. The ASB is working through a backlog of accounting issues.

2. No Accounting Standard on a New Topic Developed in India

Development of an accounting standard on a new topic has never been initiated in India. Standard setting in India means adapting an International Accounting Standard to suit the Indian situation. Jawaharlal (2005, p. 521) has an explanation for this. He says the ICAI in the past devoted its major time in preparing chartered accountants to perform auditing function, and has not given required attention to the formulation of accounting standards.

3. Lack of Transparency in the Indian Due Process

When a standard is being developed, the concerned parties viz. users, investors, auditors have to know what is happening at every step. It has to be an open and a consultative process as at the IASB and the FASB. In India, public comments are invited on an exposure draft only after it has been approved by the regulatory bodies and these comments are not published.

Mathew (1993) compared 12 exposure drafts with final standard and found that there were differences between exposure drafts and final standards in 8 out of 12 cases. Since many of these changes gave more flexibility to management, study concluded that certain interest groups must have lobbied and the ICAI yielded to such pressures.
4. Inadequate Accounting Research

Accounting Research can contribute effectively to standards setting. To add a new item on the technical agenda, to revise an existing standard, accounting research is necessary. Since not much accounting research has been conducted in India, no new accounting standard was initiated in India.

5. Government Intrusion in Financial Reporting Area

Jawaharlal (2005, p. 522) says there is a lot of government intrusion in laws related to company accounts and financial reporting. Formats for financial statements are prescribed by a schedule to the companies act in India. A schedule to law, which can be changed only by the Parliament does not offer the required flexibility.

6. No Permanent Staff

Another deficiency in the Indian standard setting lies in the voluntary nature of the work of the ASB members. Since they are not full time members their commitment to the Board may be less. This sort of arrangement has the potential danger of the board members basing their decisions in the interest of their clients. (Solomons, 1985)

7. Suggestions for Improving Indian Standards Setting

1. Reduce Pluralism in Standard Setting

Indian GAAP includes pronouncements issued by various authorities like the ICAI, SEBI, MCA, RBI and Insurance Regulatory and Development Authority (IRDA).

SEBI mandates certain disclosures in the annual reports of listed companies such as cash flow statements, corporate governance reporting. The format for quarterly
disclosures of listed companies is prescribed by SEBI. RBI prescribes asset classification and provisioning for banks. IRDA lays down rules for insurance companies. The Indian Companies Act lays down format of financial statements and prescribes minimum depreciation rates and requires compliance with accounting standards issued by ICAI (and by NACAS). Financial Reporting in India is influenced by all these authorities and by the rules and laws these authorities make.

Multiplicity of formulating and monitoring authorities has been an impediment in the smooth implementation of Indian GAAP. If pluralism is reduced or eliminated, uniform application of accounting standards will be possible.

2. Encourage Accounting Research

Areas where a new accounting standard is needed or areas where conflicting options are used in financial reporting will be discovered only with research. The ASB should have permanent staff to carry out research work.

Waterhouse (1981) analysed some aspects of the process of the accounting standard setting in Canada. His analysis has two policy implications: 1. More resources be devoted to accounting research and 2. Standard setting process be less secret and more open to public scrutiny. Indian standard setters have to implement both the findings.

3. Ensure Transparency in the Standard Setting Process

Hongren (1973) argues that setting of accounting standards is a social decision and that all interested parties should have ample chance to voice their views as issues arise. The ASB should keep public updated about the meetings and also about the resolutions passed. It should consider all issues in an unbiased and objective way.
The ASB should publish comments received on exposure draft and should also explain how they have been dealt with while finalising the standard.

Gibson (1980) examined how successful the public comment procedures have been in reducing criticism of standard setting and their impact on standards produced. His analysis revealed that the exposure drafts had substantial impact on the accounting standards issued and thus they could meet the desired objective of reducing the criticism on accounting standard setting. According to him various consultative procedures influence the contents of the standards.

4. **Standardise the Time Frame**

The ASB should standardise the time frame for each step in standard-setting. Time when work would start on revision or development – topic wise should be made public and timeframe till the publication of exposure draft should be announced in advance.

5. **Provide ‘Basis of Conclusion’ Along with the Text of Accounting Standard**

Accounting standards published by the IASB and the FASB include Basis for Conclusions which summarises the Board’s considerations in reaching its conclusions. This enables users of the standard to understand logic behind the provisions included in the, or excluded from the text of the standard.

6. **Convergence of Corporate and Tax Laws with Accounting Standards**

Currently some provisions under Corporate and Tax laws do not match with accounting standards. Prescriptions for depreciation accounting are different under each of these three. Lot of energy and time of the accountants can be saved by converging corporate and tax laws with accounting standards.
8. Summary

Accounting standard setting institutions and their process of standard setting is compared in this chapter. It is observed that Indian accounting standard setting process is neither as consultative as the IASB nor as open and transparent as the FASB. We have to encourage accounting research in India. Presently there are too many institutions which are issuing standards; pluralism in standard setting has to be reduced. Indian accounting standards will become more effective if suggestions for improvement of Indian standards are worked on. Better standards and effective implementation of those standards will go a long way in improving the financial reporting in India.

Next chapter deals with comparative analysis of selected accounting standards.