

Research Paper



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DISCLOSURES OF FINANCIAL AND NON FINANCIAL TRANSACTIONS AND ROLE OF ACCOUNTING STANDARDS



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ABSTRACT

Over the last two decades, the global financial landscape has undergone a significant transformation. These developments have been attributable, in part, to dramatic changes in the business and political climates, increasing global competition, the development of more market-based economies, and rapid technological improvements.

The objectives of the study are to discuss a number of issues related to the infrastructure for high quality financial reporting system and developing a high quality, global financial reporting framework for use in cross-border filings. We found that the world's financial centers have grown increasingly interconnected and to encourage the development of accounting standards to be considered for use in cross-border filings. Our study reveals the important role of International Organization of Securities Commissions (IOSCO) and International Accounting Standards Committee (IASC) in global financial reporting. Throughout this effort, we have been steadfast in advocating that capital markets operate most efficiently when investors have access to high quality financial information.

It may be concluded that International Financial Reporting Standards have been widely adopted by countries across the world and in some cases this has been achieved by transposing International Financial Reporting Standards into local regulations.

Key words: Global Financial Reporting, International Accounting Standard, Financial Statements.

Introduction

Accounting Standards can be described as a vehicle whereby the wisdom and experience of the profession emerges as a consensus in a complex and changing economic and business situation in preference to the views of individual compilers of financial statements. Accounting as a “language of business” communicates the financial results and health of an enterprise to various interested parties by means of periodical

financial statements. Like any other language, accounting should have its grammar (set of rules) and that is Accounting Standards.

Financial statements prepared in one country are often not acceptable in other countries. Business practices, legal and fiscal framework, economic and social conditions differ in different countries and these differences impact on national accounting standards. Sometimes, even the basic philosophy and principles

adopted in preparing the financial statements differ. For instance, (i) In some countries while determining accounting treatments, form (legal form) of the transaction is given more importance, while in some countries “substance” of transaction is given more importance. (ii) In some countries historical cost is considered more relevant, while in some other countries present fair value is considered more relevant for valuating various assets. Thus, in some countries revaluations of assets are permitted, while in other countries revaluations are not permitted. (iii) In some countries creditors’ protection is given priority, while in other countries investors’/shareholders’ interest is considered more relevant. (iv) In some countries corporate, tax and fiscal laws have greater influence on selection of accounting treatment than in others. (v) Rules regarding treatment of exchange differences, treatment of borrowing costs, depreciation of fixed assets, and amortization of intangible assets and valuation of investments differ in different countries.

The ultimate objective is that all general-purpose financial statements are prepared using a single worldwide framework using common measurement criteria and fair and comprehensive disclosure. This cannot be achieved overnight and will require significant long-term efforts. The process should include the following steps. (i) National Accounting Standards should be at par with International Accounting Standards (IAS) as the benchmark or minimum standards. (ii) All agencies should cooperate for a strong monitoring and oversight process on the implementation of national accounting standards. (iii) During the transition period, the financial statements need to be supported by the use of an explanatory paragraph in these statements narrating the differences between national and international standards of accounting.

Research Objectives and Methodology

The objectives of the study are to discuss a number of issues related to the infrastructure for high quality financial reporting system and developing a high quality, global financial reporting framework for use in cross-border filings. We have used secondary data and data have been collected from the various books, journals, magazines and reports of both the Indian and International governments.

International Accounting Standards (IAS)

The International Accounting Standards Committee (IASC) was established in 1973 to develop and promulgate a set of International Accounting Standards (IAS). It published the first bound set of IAS in 1987. IAS is intended to enhance the comparability of financial information by reducing national accounting differences. As of July 2002, IAS was available in English and 20 other languages. In 2001, the IASB superseded IASC and adopted existing IASs. Future IASB-issued standards will be called International Financial Reporting Standards (IFRSs). IASB is funded by contributions from national and international professional accountancy bodies, financial institutions and industrial companies, major accounting firms, central banks and multilateral development banks. As of June 2002, 34 IASs were supplemented by 31 statements issued by the IASB Standing Interpretations Committee (SIC). Few countries embraced IAS immediately. Nevertheless, by 2002, and so on, many ADB, DMCs and more than half of the OECD member economies have either directly adopted, or are in the process of directly adopting, IAS. International Accounting Standard Committee (IASC) has laid down certain standards regarding the following accounting matters. The Various IAS are as follows:

IAS	1	Presentation of Financial Statements
IAS	2	Inventories
IAS	3	Replaced by IAS 27& 28
IAS	4	Replaced by IAS 16, 22 & 38
IAS	5	Replaced by IAS 15
IAS	7	Cash Flow Statements
IAS	8	Profit and Loss for the period, fundamental errors and changes in Accounting policies.
IAS	9	Research and Development costs
IAS	10	Events after the Balance Sheet date
IAS	11	Construction Contracts
IAS	12	Income Taxes
IAS	13	Replaced by IAS 1
IAS	14	Segment Reporting
IAS	15	Information Reflecting the Effect of Changing Prices.
IAS	16	Property, Plant and Equipment
IAS	17	Leases

IAS 18	Revenue	AS 1	Disclosure of Accounting Policies
IAS 19	Employment benefits	AS 2	(Revised), Valuation of Inventories
IAS 20	Accounting for Government grants and disclosure of Govt. Assistance.	AS 3	Cash Flows Statements
IAS 21	The effect of changes in Foreign Exchange Rate	AS 4	Contingencies and Events Occurring after the Balance Sheet Date
IAS 22	Business combinations	AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
IAS 23	Borrowing cost		
IAS 24	Related party disclosure	AS 6	Depreciation Accounting
IAS 25	Accounting for Investment	AS 7	Accounting for Construction Contracts
IAS 26	Accounting and reporting by retirement	AS 8	Accounting for Research and Development
IAS 27	Consolidated Financial Statements and Accounting for Investment in Subsidiary	AS 9	Revenue Recognition
IAS 28	Accounting for Investments in Associates	AS 10	Accounting for Fixed Assets
IAS 29	Financial Reporting in Hyper Inflationary Economics	AS 11	Accounting for the Effects of Changes in Foreign Exchange Rates
IAS 30	Disclosures in Financial Statements of banks and similar financial institutions	AS 12	Accounting for Government Grants
IAS 31	Financial Reporting of interest in Joint Ventures	AS 13	Accounting for Investments
IAS 32	Financial Instruments: Disclosure & Presentation	AS 14	Accounting for Amalgamations
IAS 33	Earning Per Share	AS 15	Accounting for Retirement Benefits in the Financial Statements of Employers
IAS 34	Interim Financial Reporting	AS 16	Borrowing Costs
IAS 35	Discontinuing operations	AS 17	Segment Reporting
IAS 36	Impairment of Assets	AS 18	Related Party Disclosures
IAS 37	Provisions, Contingent liabilities and Contingent Assets	AS 19	Leases
IAS 38	Intangible Assets	AS 20	Consolidated Financial Statements
IAS 39	Financial Instruments: Recognition and Measurement	AS 21	Earning Per Share
IAS 40	Investment Property	AS 22	Accounting for Taxes on Income
IAS 41	Agriculture Source: Financial Accounting and Analysis pp.1.18	AS 23	Accounting for Investments in Consolidated Financial Statements
		AS 24	Discontinuing Operation
		AS 25	Interim Financial Reporting
		AS 26	Intangible Assets
		AS 27	Financial Reporting of Interest in Joint Ventures
		AS 28	Impairment of Assets
		AS 29	Provisions, Contingent Liabilities and Contingent Assets
		AS 30	Financial Instruments : Recognition and Measurement
		AS 31	Financial Instruments-Presentation

Accounting Standards in India

In India, the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) is responsible for setting Accounting Standards (AS). The ASB comprises members of the Central Council of ICAI as well as certain members from professional, industry and various other segments and government agencies. The ASB of ICAI has issued 31 Accounting Standards so far. The list of accounting standards issued is given hereunder.

Source: Financial Accounting and Analysis pp.1.18-1.19

Indian Accounting Standard and International Accounting Standards

On the basis of the abovementioned tables we may find similarity in the various International and Indian Accounting Standards. Most of these are similar but there are some accounting standards which are to be formulated by the Indian Accounting Standard Board.

Disclosure of Accounting Policies (Revised), Valuation of Inventories	AS-1	IAS-1
Cash Flows Statements	AS-2	IAS-2
Contingencies and Events	AS-3	IAS-7
Occurring after the Balance Sheet Date	AS-4	IAS-10
Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	AS-5	IAS-8
Depreciation Accounting	AS-6	
Accounting for Construction Contracts	AS-7	IAS-11
Accounting for Research and Development	AS-8	IAS-9
Revenue Recognition	AS-9	IAS-18
Accounting for Fixed Assets	AS-10	IAS-16
Accounting for the Effects of Changes in foreign Exchange Rates	AS-11	IAS-21
Accounting for Government Grants	AS-12	IAS-20
Accounting for Investments	AS-13	IAS-25
Accounting for Amalgamations	AS-14	
Accounting for Retirement Benefits in the Financial Statements of Employers & 19	AS-15	IAS-26
Borrowing Costs	AS-16	IAS-23
Segment Reporting	AS-17	IAS-14
Related Party Disclosures	AS-18	IAS-24
Leases	AS-19	IAS-17
Consolidated Financial Statements	AS-20	IAS-27
Earning Per Share	AS-21	IAS-33
Accounting for Taxes on Income	AS-22	IAS-12
Accounting for Investments in Consolidated Financial Statements	AS-23	IAS-27
Discontinuing Operation	AS-24	IAS-35
Interim Financial Reporting	AS-25	IAS-34
Intangible Assets	AS-26	IAS-38
Financial Reporting of Interest in Joint Ventures	AS-27	IAS-31
Impairment of Assets	AS-28	IAS-36

Provisions, Contingent Liabilities and Contingent Assets	AS-29	IAS-37
Financial Instruments : Recognition and Measurement	AS-30	IAS-39
Financial Instruments-Presentation	AS-31	IAS-32

Source: Self-prepared, Footnote; IAS-International Accounting Standard, AS- Indian Accounting Standards

Indian Accounting Standards- Required to be constructed

We have seen that there are numerous International and Indian Accounting Standards. Accounting Standards have been or are being formulated at different levels like at the International level as well as at the National level by the Accounting Standard Board. During the study we found that there are some accounting standards which have been formulated at International level but have not been formulated in India till the date.

IAS 29	Financial Reporting in Hyper Inflationary Economics
IAS 30	Disclosures in Financial Statements of banks and similar financial institutions
IAS 40	Investment Property
IAS 41	Agriculture

OECD Guidelines of Disclosure for Multinational Enterprises

Today Multinational Enterprises play an important role in business. Financial and non-financial both type of information are required to be disclosed by an organization in its reporting system. Therefore Organization for Economic Co-operation Development has formulated following guidelines of disclosures for multinational enterprises.

1. Enterprises should ensure that timely, regular, reliable and relevant information is disclosed regarding their activities, structure, financial situation and performance. This information should be disclosed for the enterprise as whole and, where appropriate, along business lines or geographic areas. Disclosure policies of enterprises should be tailored to the nature, size and location of the enterprise, with due regard taken of costs, business confidentiality and other competitive concerns. 2. Enterprises should apply high quality standards for disclosure, accounting, and au-

dit. Enterprises are also encouraged to apply high quality standards for non-financial information including environmental and social reporting where they exist. The standards or policies under which both financial and non-financial information are compiled and published should be reported.

3. Enterprises should disclose basic information showing their name, location, and structure, the name, address and telephone number of the parent enterprise and its main affiliates, its percentage ownership, direct and indirect in these affiliates, including shareholdings between them.

4. Enterprises should also disclose material information on:

a) The financial and operating results of the company. b) Company objectives. c) Major share ownership and voting rights. d) Members of the board and key executives, and their remuneration. e) Material foreseeable risk factors. f) Material issues regarding employees and other stakeholders. g) Governance structures and policies.

Enterprises are encouraged to communicate additional information that could include:

a) Value statements or statements of business conduct intended for public disclosure including information on the social, ethical and environmental policies of the enterprise and other codes of conduct to which the company subscribes. In addition, the date of adoption, the countries and entities to which such statements apply and its performance in relation to these statements may be communicated. b) Information on systems for managing risks and complying with laws, and on statements or codes of business conduct. c) Information on relationships with employees and other stakeholders.

Recommendations

The International Accounting Standards Board (IASB) announced a series of actions which it has taken to address recommendations made by the G-20 leaders (Countries) very recently.

1. Improved accounting for off-balance-sheet items. The IASB published proposals to strengthen and improve the requirements for identifying which entities a company controls. The IASB said that further proposals on off-balance-sheet items, covering

the derecognizing of assets and liabilities, are expected to be published.

2. New disclosure requirements related to impairment. The IASB and FASB are proposing changes in disclosure requirements for impairments to arrive at a common outcome. The proposals will enable companies to disclose the profit or loss that would have been recorded if all financial assets (other than those categorized at fair value through profit or loss) had been measured using amortized cost or all had been measured using fair value.

3. Acceleration of efforts to address broader issues of impairment on a globally consistent basis. Both the IASB and FASB, whose respective standards have different impairment requirements, have asked their staffs to consider together how existing requirements relating to reversals of impairment losses might be changed. The boards will also address the question of impairment as part of an urgent broader project this year, and this will also be considered by the Financial Crisis Advisory Group (FCAG).

4. Ensuring consistent treatment of accounting for particular credit-linked investments between U.S. GAAP and IFRS. Some stakeholders have called for the need to clarify any possible difference in the accounting treatment between IFRS and U.S. GAAP. FASB plans to issue mandatory implementation guidance that will ensure consistency between IFRS and U.S. GAAP—an objective supported by G-20 leaders (Countries).

5. Ensuring embedded derivatives are assessed and separated if financial assets are reclassified. Following requests from some stakeholders at the recently convened FASB-IASB round-table discussions, the IASB published an exposure draft that proposed clarifying that all embedded derivatives should be assessed and, if necessary, separately accounted for in financial statements.

Suggestions

Today the world financial market is very volatile. People are investing in the organizations through primary & secondary capital market and financial instruments. We should not forget the incidence of *Satyam Computers Limited* which took place very recently so there is a requirement to establish a very transparent

financial reporting system. There are following suggestions to make a financial reporting system strong:

1. Government should make it compulsory to follow the accounting standards and non-compliance should attract the penal and prosecution provisions.
2. The Government, financial institutions and institute like the Institute of Chartered Accountants must create awareness among the investors and the stakeholders.
3. G-20 leaders (countries) and the members of OECD should fix the role and duties of all the member countries and non-member countries.
4. Introduction anything new in the financial market and changes in the financial market should be discussing at the international forum and then should be implemented.

Conclusion

India is slowly entering in the arena of accounting standards. But the progress of formulation of accounting standards has been very slow compared with the developments at international levels. Accounting Standards cannot be over-emphasized. Today India enjoys a very small share of the international funds ear-marked for emerging markets. There is a growing realization that these funds will increasingly flow to those markets which are strongly regulated and which have an ethical base. Assurance that financial statements are prepared in accordance with internationally accepted accounting standards and audited on a basis comparable with international practice is a key plank in the system of regulation. Apart from this, international investors and lenders will be willing to provide funds only to those enterprises whose financial statements

are prepared on lines with which they are familiar. But regulation alone cannot achieve the desired goal. If internationally accepted accounting standards are to be speedily introduced and implemented in this country, what is needed, is the voluntary acceptance of such standards by the preparers of financial statements, the users of those statements, the accounting profession, the regulators and the various departments of the Government responsible for corporate and fiscal legislation. Each of these must be prepared to make the individual sacrifices which will ultimately result in the common good.

At last we may conclude that the development of harmonized accounting rules and a uniformity of approach among countries towards education and training of professional accountants should accompany principles. Further more, the harmonization of accounting rules and principles among countries should also be accompanied by inter country harmonization in auditing principles and standards. Harmonization initiatives are now working much more effectively than ever before. Many of the initial hurdles have been overcome and much progress towards harmonizing accounting principles and procedures among countries has already been achieved. Differences are still there but they are narrowing. It is expected that the pace of progress in the sphere of harmonization will accelerate further in the coming years and there would be need for a speedy integration of Indian accounting standards with International.

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