A Comparative Study of Global Accounting and Indian Accounting

K. Archunan
Professor of Commerce
Nagarathinam Angalammal Arts & Science College, Madurai, Tamil Nadu, India

C. Ramaiyan
Assistant Professor of Commerce, Vels University, Chennai, Tamil Nadu, India

Abstract
Accounting is a tool to quantify all economic and business transactions in terms of money. The economic and non-economic transactions are measured and compared from year to year and country to country with the help of accounting only. Hence, accounting is a backbone of evidence to identify the strength and weakness of any sector of the country. The accounting systems vary from country to country depending upon the nature of the business. The ancient accounting system has a narrow concept which has been followed within a country. Later in the ancient international trade, business transactions were based on the barter system. The traders followed informal accounting records for their business transactions, before the industrial revolution. Due to the industrial revolution (1760) there was mass production in the textile industries, steam industries, and iron industries. The huge volume of production led to changes in the field of accounting. The spread of the industrial revolution across Europe, hence it requires a common accounting system among the European countries. The expansion of the volume of economic and business transactions gives the necessity of a globally accepted accounting system. Moreover, in the international trade, all countries around the world are involved in both imports and exports. Hence, the international accounting system is required to know the accuracy of global business transaction. India has its own accounting system which is based on the Indian Companies Act, 1956, later the Indian Companies Act, amended, 2013. The Indian Accounting Standard is applicable only to India, which is framed for Indian companies located in India. If any Indian Companies located outside India have to follow the International Accounting standards.

Keywords: Accounting System, Industrial Revolution, International Accounting Standards.

Introduction
The term accounting means that counting business transactions is quantified in terms of money and should be recorded in the business book. Informal accounting and bookkeeping started during the period 7500 B.C. at Mesopotamian civilization (present-day Iraq), later developed by the Sumerians. In India, Hinduism believes in the God Chitra Gupta Nainar has maintaining the accounting record and calculate the summary of the credit and debits of every human beings’ activities in their whole life time, then he evaluated those accounts, and he gives either punishments and rewards to them based on their credits or sins after the death. During B.C. 326, during the period of Chandra Gupta Mouriya’s finance minister, Goudilya introduced tax systems based on the revenue of the people. The tax amount was used to develop infrastructure, irrigation, military purposes of the country.

The Chola King Rajaraja Cholan introduced the perfect tax account system during the time in his region. He appointed various officials to maintain the accounting system, such as Kanakkapillai, Karnam etc. During the Mogul period, King Shersha was also introduced and maintained a proper accounting system for various sources of income. Those accounting systems were similar to single-entry bookkeeping.
The modern accounting system, double-entry bookkeeping, was first introduced in 1494 by Lucas Pacioli, an engineer from Italy who published his accounting book “Summa Arithmetica” in the year 1494. Hence, he is called the Father of Accounting. During his period, the accounting steps and updates in accounting were organized and further developed by England in 1880. Every business transaction which carries two impacts, hence one transaction comes under debit and the other will be credit as per dual aspect accounting concept.

Between the year 1973 and 2000, the International Accounting Standards (IAS) were framed and issued by the International Accounting Standards Committee (IASC). Later, the International Accounting Standards Committee was replaced by the International Accounting Standards Board in the year 2001. The International Accounting Standards Board is located in London, England. The ISAB is responsible for issuing and modifying the International Financial Reporting Standards (IFRS) as well as International Accounting Standards (IAS). The International Accounting Standards Board is a separate and independent constitutional body, and it consists of members from nine different countries around the world and they have different functional backgrounds.

The Indian Accounting Standard Board was created by the Institute of Charted Accountants of India (ICAI), in the year 1977. The Indian ASB is responsible for framing and developing the accounting standards and being revised from time to time. The Indian Accounting Standards Board has an independent right to formulate or change the accounting standards. The Indian Accounting Standards Board members are from various fields and different organization within India and also take suggestions and opinions from the departments and experts from different fields.

Objectives of the Study

• To understand the relevance and variations of the International Financial Reporting Standards and Indian Accounting Standards.
• To understand the application of the International Financial Reporting Standard in the Indian accounting system.
• Preparation of financial statements under IFRS in the Indian business sector.
• The usage of international accounting standards in the Indian accounting system.
• To know the procedure for issuing the International Financial Reporting Standards and Indian Accounting Standards.

Indian Accounting Standards

The Indian Accounting Standards acronyms such as Ind AS, which are the minimum accounting standards are to be followed by every Indian company. Hence, all Indian companies should prepare their accounts as per the Indian Accounting Standards.

Objectives Indian Accounting Standards

• All Indian companies have to maintain their books of account based on Indian Accounting Standards, which are accepted by all other companies, who are operating in India.
• Indian Accounting Standards helps to unified system for preparation of financial statements, and it confirms the transparency in the financial statements and other accounts of the companies.
• It helps to harmonize accounting practices similar to the international accounting standards.
• It ensures that the Indian Accounting Standards are being compiled by the Indian company with the multinational companies (MNCs).

Applicability of Indian Accounting Standard in India

The Indian government and the Ministry of Company Affairs issued an order to all Indian companies to follow the Indian Accounting Standard for the financial year 2016–17. All businesses and their financial transactions are similar throughout the world. Hence, it does not require separate accounting standards for each and every country. International Accounting Standards help harmonize in the field of corporate accounts. It will overcome the hurdles to prepare the various types of accounting systems in India. India is also involved in international trade and does not face any difficulties in implementing international accounting system. It will help the entry of many multinational companies into India.
Benefits of Indian Accounting Standards in India

- Uniformity in application of Indian Accounting Standards in all Indian companies which will match the international accounting standards.
- The Indian Accounting Standards are globally accepted. This will help to expand the Indian company to set up multinational companies. It also attracts many multinational companies to India, due to the similarity between Indian Accounting Standards with the International Accounting Standards.
- The adoption of Indian Accounting Standards in Indian companies easily compliance with the multinational companies in India. It will help to attract foreign investments.

International Accounting Standards

The International Accounting Standards were created and introduced by the International Accounting Standards Committee in London (England) in the year of 1973. The main objective was to make the accounting process will be easy for all the companies in the world. It will increase trust, transparency, harmony, and better understanding about the financial statement for international traders and investors.

The International Accounting Standard Board was developed and maintains the International Financial Reporting Standards (IFRS) to governs the financial transactions and events that should be reported to the financial statements for a particular accounting period.

Objectives of International Accounting Standards

- The main objective of International Accounting Standards is to improve the reliability of financial transactions to enrich the quality of the financial statements and various financial reports. The IAS will reveal the transparency of the accounts of companies.
- The International Accounting Standards helps to compare companies and its departments within a company. Also, help to compare the year-wise performance of a company. Hence, the company will understand its progress of the company and also find the solution for the weaker areas.
- The International Accounting provides the necessary accounting policies and shows the required disclosures and different method of valuation related to financial transactions of companies.

Applicability of International Accounting Standard in India

- Indian Accounting Standards are created based on the International Accounting Standards. Hence, most of the rules are similar to the International Financial Report Standards (IFRS). The domestic companies and foreign companies will not face any discrepancies for maintaining the accounting system. The acceptance of Indian Accounting Standards will not affect multinational companies located in India.
- The Indian Accounting Standards are derived from the International Financial Reporting Standards. Hence, both Indian Accounting Standards and International Accounting Standards (IFRS) will improve transparency and consistency in preparing financial statements and financial reports are easier for both domestic companies and multinational companies.
- Indian Accounting Standards rules are brought from the International Financial Report Standards (IFRS), which reduces the differences between them, so that the rules-based accounting practices will not be affected the Indian accounting system of the companies.
- The adoption of the Indian Accounting Standard (IAS) or International Financial Report Standards (IFRS) will not make any differences in the cost of capital of companies.

Challenges to Adopting the International Accounting Standards in India

The adoption of international accounting standards will not affect Indian accounting standards, but there are some major challenges, as follows:

- Small and medium-sized Indian companies have less awareness about the International Accounting Standards. Hence, they are facing difficulties starting their business in the overseas. They also find it difficult to maintain their accounts as per international accounting standards.
Adoption of International Accounting Standards in India

The International Accounting Standards were adopted in 2010 on the advice of the Security Exchange Board of India for some specified companies in India on a voluntary but not mandatory basis. In 2010, the adoption of international accounting standards in India was recommended and announced by the Security and Exchange Board of India (SEBI) to Indian companies on a voluntary basis. This adoption may help to increase the quality and transparency of the accounting systems of Indian companies, but it is not mandatory for them. In 2015, the Ministry of Company Affairs announced that Indian companies should follow the Indian Accounting Standards instead of the International Accounting Standards. The discrepancies between the Indian Accounting Standards (Ind AS) and the International Accounting Standards (IFRS) have been reduced.

Findings and Suggestions

Due to globalization, the world’s trade is expanding day by day, and the new multinational companies are creating new demands for the people, resulting in the people spending more money to fulfill these demands. Most countries want to attract foreign investment to help their economies grow. International trade plays a major role in earning foreign exchange reserves and providing high employment opportunities for people. The foreign investments help to increase the per capita income of the people. The entry of multinational companies into India makes it difficult to follow the Indian accounting standard instead of international accounting standards. Those foreign companies have to change their accounting practices only for their Indian branches. Hence, they prefer to follow the International Accounting Standards. There is a heavy shortage of global chartered accountant professionals such as CFA, ACCA, CIMA, etc. These professional degrees are based on rules and applied accounting practices, which are rarely offered by Indian educational institutions.

India should also implement accounting education like international medical and engineering degrees. The non-availability of international accounting professionals leads to hiring those accounting professionals from abroad. Hence Indian educational institutions should offer international accounting professional degrees for Indian students. Introducing the International Accounting Standards (IFRS) will help to remove the hurdles of the MNCs in India.

Conclusion

India has been a developing country for a long time but has not yet reached the status of a developed country. India has a large population to supply to meet the demand for accounting professionals in the world. With the implementation of international accounting standards in India, young minds will have to learn the professionalism of global accounting standards. It leads to more employment opportunities around the world in the field of accounting. In order to attract more foreign investments and create worldwide employment, the unified international accounting standards will be implemented, and the Indian accounting standards should be merged with the international accounting standards. Accounting education should be modified according to global standards otherwise Indian Accounting standards will not be effective to the world business environment.

References


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**Author Details**

Dr. K. Archunan, Professor of Commerce, Nagarathinam Angalammal Arts & Science College, Madurai, Tamil Nadu, India, Email ID: archunankanniah@gmail.com

C. Ramaiyan, Assistant Professor of Commerce, Vels University, Chennai, Tamil Nadu, India

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