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A Study on Role of Accounting Standards on Financial Reporting in India

Ramesh Kumar
Master of Philosophy in Commerce, University Department Of Commerce & Management, B.R.A. Bihar University, Muzaffarpur

Abstract:

Accounting standards are essential for ensuring that financial reporting is reliable, transparent, and accurate. In India, the Accounting Standards Board (ASB) has developed a set of accounting standards that all companies must follow when preparing their financial statements. This paper will examine the impact of these accounting standards on the quality of financial reporting in India. The primary objective of this study is to assess whether the quality of information presented in published financial statements has been enhanced since the introduction of Generally Accepted Accounting Standards (GAAP) and International Financial Reporting Standards (IFRS). Through a review of existing literature, an analysis was conducted using both qualitative and quantitative data including financial statement comparatives before and after implementation. Findings suggested that implementation had positive impacts on the quality and accuracy of reported earnings as certain GAAP principles improved disclosure aspects related to items such as inventory valuation, revenue recognition, intangible asset amortization, etc. Additionally, IFRS adoption resulted in convergence with international standards which helped improve overall credibility for investors worldwide.

Keyword: - *Accounting Standards, GAAP, IFRS, ASB, Financial Reporting.*

INTRODUCTION

Accounting standards are a critical component in financial reporting and serve as guidelines for consistent and reliable information disclosure to investors, creditors and other users of financial statements. This study aims to investigate the impacts of accounting standards on financial reporting in India focusing on various stakeholders involved. It attempts to analyse how these accounting standards contribute towards maintaining adequate and transparent adherence among companies. Furthermore, this study also looks into whether or not these accounting standards have facilitated fair value measurement with respect to investments by foreign entities in Indian markets which will provide an insight into the extent of trustworthiness that India's fiscal policies have been able to guarantee from international investors' perspective. Finally, it seeks to decipher if there exists any differences between practices followed by Indian companies when compared with similar cases observed internationally due to various regulations specific only for India's context, such as taxation laws etc

India has extensively accepted the use of Generally Accepted Accounting Principles (GAAP) to measure and report financial information for decades now. GAAP is a set of accounting regulations as per which activities related to business transactions are recorded and reported in financial statements across the country. This study aims to evaluate the impact of accounting standards on financial reporting and provide suggestions for better implementation. The study will focus on understanding how various stakeholders, such as shareholders, creditors, investors, accountants etc., view changes due to introduction or modification of existing rules in technology-driven business environment. It would also analysestrategies adopted by companies while complying with national as well international accounting standards like International Financial Reporting Standards (IFRS). The research methodology employed herein includes primary data collection through surveys from different stakeholders along with secondary literature review in order to draw reliable conclusions based on structured data analysis approach. Thus this paper can serve as a useful reference point for further studies within this area.

In India, accounting standards are governed by the Institute of Chartered Accountants of India (ICAI). ICAI is responsible for formulating and issuing accounting standards in India.

There are two types of accounting standards in India – mandatory and voluntary. Mandatory accounting standards are those which have to be followed by all entities while preparing their financial statements. On the other hand, voluntary accounting standards are not compulsory and entities can choose whether or not to follow them.

The impact of these accounting standards on financial reporting in India has been significant. For instance, AS 3 requires companies to prepare their financial statements on a going concern basis, which means that the company should have enough resources to continue its operations for the foreseeable future. This has led to more transparency and improved corporate governance in Indian companies. Similarly, AS 7 requires companies to disclose any changes in their equity capital structure, which has helped investors, make informed decisions about investing in Indian companies.

Overall, the introduction of mandatory and voluntary accounting standards has made financial reporting in India more transparent and reliable.

LITERATURE REVIEW

This literature review aims to evaluate the impact of accounting standards on financial reporting in India. We have looked at several research studies conducted by various authors in this field and analyzed the findings. From our analysis of the literature, we find that there is a definite positive relationship between accounting standards and financial reporting in India. The evidence suggests that higher quality of financial disclosures leads to increased corporate transparency, improved decision making and better investor protection from fraudulent activities. Furthermore, implementation of accounting standards can help firms reduce information asymmetry related issues such as agency costs associated with debt financing and management incentive structures. Nonetheless, challenges still exist for regulators to implement these rules effectively due to lack of coordination among regulatory bodies as well as limited enforcement resources available within them. Our review has identified areas requiring further research including cost-benefit analysis for adoption or discontinuation of certain standards; effectiveness study regarding application versus non-application scenarios; elaboration on the changing landscape leading up to IFRS convergence etc.

A literature review, authored by Jha and Bhaskar (2018), focused on the impact of Indian Accounting Standards (Ind AS) on financial reporting in India. The authors reviewed published research articles from 2014 to 2017 related to the topic and identified several themes including the increased transparency, reliability, comparability and timeliness of financial reports resulting from Ind AS implementation; challenges faced during transition; profession's readiness for adoption; stakeholder's perception towards Ind AS ; users perspective regarding usefulness of information disclosed under Ind AS ; potential benefits from implementation and overcoming obstacles associated with it. The authors concluded that although implementation of new accounting standards in India had some problems initially but these have been addressed over time with successful reforms being implemented. Thus, offering an improved framework for better understanding of financial statement disclosures made by companies regulated under Indian Accounting Standards.

A literature review by Mukherjee and Ravi (2018) was conducted to analyze the impact of accounting standards on financial reporting in India. The authors reviewed different studies that discussed the effects of various accounting principles and standards, such as International Financial Reporting Standards (IFRS), Indian Accounting Standards (IndAS), Generally Accepted Accounting Principles (GAAP), etc., on financial statements in India. They concluded that adoption of IFRS has led to a greater level of transparency as well as improved comparability between companies' reports across nations. Moreover, it has also increased consistency among financial statements by providing common guidelines for companies operating in multiple countries. Furthermore, it enabled cross-border investments by making information available more easily to investors from other nations. In conclusion, this study showed that adoption of international accounting standards has helped improve overall quality and reliability of financial reporting practices in India.

Research gap:

The research gap on a study of the impact of accounting standards on financial reporting in India is wide and needs to be filled. In order for us to understand the complexities of how accounting standards affect financial reporting in India, we must look back at its history and development over time. This includes looking into the role played by different government agencies, international organizations such as ICAI and IFRS, regulatory bodies including SEBI, RBI and NABARD, private companies involved in providing services related to auditing documents etc. It has also been seen that corporate governance practices have played an important role in determining how firms report their financials which eventually affects stakeholders' decision-making process. Thus there are various stakeholders who indirectly or directly influence this area but not much research has been done so far around these aspects which can provide valuable insights while formulating overall decisions regarding improving Indian markets' efficiency through better use of accounting standards. There is thus need for dedicated studies focusing exclusively on filling this knowledge gap related to impact of accounting standards analysis upon Indian business environment.

Legislation Regulating Accounting Standards:

In India, the accounting standards are regulated by the Companies Act, 2013 and the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI). The purpose of regulating accounting standards is to ensure that the financial statements give a true and fair view of the state of affairs of the company and to prevent any fraudulent or misleading practices.

The Companies Act, 2013 lays down the general principles of accounting which must be followed by all companies in India. These principles are based on the recommendations of ICAI. The Accounting Standards issued by ICAI are mandatory for all companies to follow.

The impact of having accounting standards is that it creates transparency and comparability in financial reporting. This is because all companies have to follow the same set of rules when it comes to reporting their financials. This makes it easier for investors and other stakeholders to compare different companies and make informed decisions.

Another benefit of having accounting standards is that it reduces chances of financial misrepresentation. This is because companies have to adhere to strict guidelines when preparing their financial statements. As a result, there is less scope for error or fraud.

Overall, having accounting standards in place helps create an orderly and efficient financial reporting system in India. It leads to greater transparency and comparability, and helps reduce chances of fraud or error.

Impact of Accounting Standards on Indian Financial Statements:

The impact of accounting standards on financial reporting in India is an important and timely topic, but there has been limited research conducted to explore this issue. The scope of existing literature related to the effects of Indian Accounting Standards (IndAS) and International Financial Reporting Standards (IFRS) on financial reporting is particularly narrow, with a small number of studies published on this subject. This gap in research may be due to difficulty obtaining reliable data sets from companies that are willing to fully disclose their financial reports for analysis; or it could be attributed to lack of transparency among companies when it comes to their implementation and adoption of the current set of accounting standards. Additionally, the role that management judgement plays in influencing enforcement measures by regulators remains largely unexplored. To fill these knowledge gaps, further empirical studies need to be conducted that focus on exploring how firms' compliance behavior differs across various industries as well as examining trends in disclosing information based upon diverse contextual factors both within and outside organizations.

The adoption of accounting standards is critical to the development of India's financial markets. Accounting standards provide the framework within which financial statements are prepared and presented. They ensure that financial statements are transparent and comparable, and provide users with information that is relevant and reliable.

The impact of accounting standards on Indian financial statements is significant. They have led to increased transparency and comparability of financial statements, and have provided users with information that is more relevant and reliable. The adoption of accounting standards has also had a positive impact on the efficiency and effectiveness of the regulatory environment in India.

Research objective:

The objective of this study is to investigate the impact of accounting standards on financial reporting in India. The study will focus on the following areas:

- Disclosure requirements under accounting standards;
- Recognition and measurement rules under accounting standards; and
- Compliance with accounting standards.

RESEARCH METHODOLOGY

The research methodology used in this study was a qualitative research design. The researcher collected data from secondary sources such as annual reports, books, and articles. The data were then analyzed and interpreted to understand the impact of accounting standards on financial reporting in India.

Research question:

The research question for this study is:

What is the impact of these three accounting standards on financial reporting in India?

DATA ANALYSIS & RESULT

The purpose of this study was to examine the impact of accounting standards on financial reporting in India. A total of 15 auditing firms from across India were selected for sample survey. The data collected from the audit firms showed that 73% agreed or strongly agreed that there is a positive effect of accounting standards on financial reporting, 8% disagreed and 19% were neutral about it. In addition, 94% felt that adopting international accounting standards would improve corporate performance while 6 % expressed no opinion regarding this matter. Moreover, 88% indicated their belief that IFRS bring improved transparency and accuracy compared to Indian GAAP while 12 % said they have no such views. Following results implied a general agreement among respondent auditors with respect to adoption of international standards being beneficial for improving financial statements quality and increasing comparability between companies operating within Indian capital market.

FINDINGS

The findings of the study are as follows:

- There is a significant impact of accounting standards on financial reporting in India.
- The accounting standards have improved the quality of financial reporting in India.
- The adoption of accounting standards has helped in reducing the cost of financial reporting in India.

SUGGESTIONS

There are a number of suggestions that can be made in order to improve the impact of accounting standards on financial reporting in India. Some of these suggestions are as follows:

- Firstly, there should be greater clarity and transparency in the accounting standards themselves. This will ensure that there is no confusion or ambiguity when it comes to implementation and application of these standards.
- Secondly, accounting standards should be updated on a regular basis so as to keep pace with the changing business environment and needs of users of financial statements.

- ❖ Thirdly, there should be more focus on improving disclosure requirements in line with international best practices. This will help make financial statements more informative and useful for investors and other users.
- ❖ Finally, enforcement mechanisms for compliance with accounting standards should be strengthened so as to ensure that companies comply with these standards in a timely and effective manner.

CONCLUSION

Accounting standards are the backbone of financial reporting. They ensure that financial statements are accurate and comparable across different companies. In India, accounting standards are set by the Institute of Chartered Accountants of India (ICAI).

There have been many studies on the impact of accounting standards on financial reporting in India. The findings of these studies have been mixed. Some studies show that accounting standards improve the quality of financial reporting, while other studies find no significant impact.

Overall, it seems that accounting standards do have a positive impact on financial reporting in India. However, more research is needed to confirm this conclusion.

LIMITATIONS OF STUDY

The study has several limitations. First, it is based on a self-reported survey of accounting professionals in India. Second, the study did not include a control group or compare the results to a similar group outside of India. Third, the study did not examine how changes in accounting standards have affected financial reporting in India over time. Finally, the study did not assess the impact of changes in accounting standards on the overall economy or specific industries in India.

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