COMPARATIVE EARNING ANALYSIS OF FIRMS ADOPTING MULITPLE REPORTING STANDARDS: IGAAP, IFRS AND USGAAP

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Abstract of paper

In the present business scenario harmonisation of various accounting bodies regarding preparation and presentation of financial statements are must. Similarity in accounting system with respect to the global environment will result in more fair and transparent presentation of accounts and its understanding ability. Investors and general public at large will also be benefited, since; accounts will present the same picture whatever may be the geographical location of the company.

This paper will cover the analytical study of Indian and international accounting standards with respect to which is listed in Indian as well as foreign stock exchange. The findings and research on IFRS will address concerns about the complexity and structure of the international standards & the cost vs. the benefits of the proposed changes.

Since implementation of IFRS is not made mandatory hence only few companies were studied who have voluntarily adopted IFRS

Key words: Indian GAAP, IFRS, IASB

(I) INTRODUCTION:

Standards. International Accounting Standards (IAS) was issued by the IASC from 1973 to 2000. The IASB replaced the IASC in 2001. Since then, the IASB has amended some IAS and has proposed to amend others, has replaced some IAS with new International Financial Reporting Standards (IFRS), and has adopted or proposed certain new IFRS on topics for which there was no previous IAS. Through committees, both the IASC and the IASB also have issued Interpretations of Standards. Financial statements may not be described as complying with IFRS unless they comply with all of the requirements of each applicable standard and each applicable interpretation.

The term 'IFRS'. The term International Financial Reporting Standards (IFRS) has both a narrow and a broad meaning. Narrowly, IFRS refers to the new numbered series of pronouncements that the IASB is issuing, as distinct from the International Accounting Standards (IAS) series issued by its predecessor. More broadly, IFRS refers to the entire body of IASB pronouncements, including standards and interpretations approved by the IASB and IAS and SIC interpretations approved by the predecessor International Accounting Standards Committee.

(II) AIM AND OBJECTIVES OF THE STUDY:

1. To understand the various Accounting standards that exit as of now, and the governing bodies of such accounting standards

2.To understand the significance of harmonizing global accounting standards
3. To understand the issues in globalizing the accounting standards.

(III) GAAP (Generally accepted accounting principles)

Financial accounting information must be assembled and reported objectively. Third-parties who must rely on such information have a right to be assured that the data are free from bias and inconsistency, whether deliberate or not. For this reason, financial accounting relies on certain standards or guides that are called "Generally Accepted Accounting Principles" (GAAP).

(IV)US GAAP

It is the standard framework of guidelines for financial accounting used in the United States of America. It includes the standards, conventions, and rules accountants follow in recording and summarizing transactions, and in the preparation of financial statement*Generally Accepted Accounting Principles* are now issued by the Financial Accounting standard Board (FASB). In many instances, FASB works in conjunction with the International Accounting Standard Board (IASB) in the development of GAAP.

(V) INDIANGAAP (INDIAN ACCOUNTING STANDARD)

Accounting as per Indian accounting standards issued by ICAI

In India, the Statements on Accounting Standards are issued by the Institute of Chartered Accountants of India (ICAI) to establish standards that have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards in India (India GAAP). From 1973 to 2000 the IASC has issued 32 accounting standards. These standards, as a matter of fact, most of the countries in the world, which are interested, and confidence in adopting these standards may be followed. But it is observed that many countries are not adopting the standards in the presentation of accounting information. The average gap for indianisation of International Accounting Standards is 6.13 years. It shows that for adopting IAS in India, it is taking 6.13 years for one accounting standard.

(VI)ACCOUNTING STANDARDS PREVALENT ALL ACROSS THE WORLD:

Accounting standards are being established both at national and international levels. But the variety of accounting standards and principles among the nations of the world has been a sustainable problem for globalizing the business environment.

There are several standard setting bodies and organizations that are now actively involved in the process of harmonization of accounting practices. The most remarkable phenomenon in the sphere of promoting global harmonization process in accounting is the emergence of international accounting standards.

The International Accounting Committee (IASC), now International Accounting Standards Board (IASB) was formed on 29th June 1973, by the recognized professional accounting bodies in Canada, Australia, France, Japan, Germany, Mexico, Netherlands, United Kingdom and the United States of America, with its secretariat and headquarters in London.

National standard setting bodies like Financial Accounting Standards Boards (FASB) of USA, Accounting Standards Boards (ASB) of UK, and Indian Accounting Standards (IAS) in India generally frame accounting standards in the line of IASC after due consideration of the local laws and conditions. In India the Accounting Standards Board (ASB) was constituted by the Institute of Chartered Accountants of India (ICAI) on 21st April 1977 with the function of formulating accounting standards.

(VII) DO WE NEED TO HARMONIZE THE ACCOUNTING STANDARDS OF DIFFERENT BODIES?

Different companies observe it from published annual accounts of various Indian companies that there are divergent accounting practices for the same transaction. This in effect is defeating the comparability of financial statements.

The reasons for the different accounting practices may be:
a) Too many alternative accounting treatments in the accounting standards;
b) Lack of harmony among government, standards setting body, and regulatory agencies;
Adoption of different accounting standards causes difficulties in making relative evaluation of performance of companies. This phenomenon hinders the valuation and consequently the decision making process.
To overcome these problems, harmonization of accounting standards has already been started. Accounting harmonization is not an end by itself, but it is a means to an end. The ultimate objective of harmonizing accounting practices among countries is to foster international comparability of accounts.
But still the harmonization process has a long way to go. Many standard setting bodies and regulators of different nations are ardent protectors of their local standards; they are in no mood to allow their job being taken over by a foreign entity.

Thus winning the consent of these bodies is vital for international accounting standards to don the mantle of common accounting code, i.e. harmonization of common accounting standards, which will make implementing countries more competitive internationally.

(IX) STRATEGY FOR CONVERGENCE WITH IFRS:

Various IFRS were examined from the point of view of their complexities in terms of recognition and measurement requirements and the extent of disclosures required therein to consider their application to various types of entities. It is noted that those countries which have already adopted IFRS, i.e., countries which are fully IFRS-compliant, have done so primarily for public interest entities including listed and large-sized entities. It is also noted that the International Accounting Standards Board also considers that the IFRS are applicable to public interest entities in view of the fact that it has recently issued an Exposure Draft of a proposed IFRS for Small and Medium-sized Entities. The ICAI, therefore, is of the view that India should also become IFRS compliant only for public interest entities.

(XI)EXPECTATION FROM IFRS:

To ensure smooth convergence with IFRS, up to 2015 and thereafter also, IASB is also expected to play an important role as follows:

(a) Provide guidance on issues emerging on adoption of IFRS on timely basis at least up to 2015.

(b) Address concerns about the complexity and structure of the international standards.

(c) In considering changes to the IFRS, be cognisant of the cost vs. the benefits of the proposed changes.

(d) Establish a process, or enhance the existing process to respond in a timely manner to requests for interpretations.

(e) Consider the development of implementation guidance.

(XII) TRANSITION TO U.S. GAAP- AN INDIAN PERSPECTIVE:

US GAAP is the new buzzword on the Indian financial horizon. Most companies are vying with each other to publish their accounts as per the generally accepted accounting principles followed in USA This trend is no more restricted to the new-economy companies but the older giants like IOC, Reliance etc. have also followed suit.

Simply put, GAAP is the acronym for Generally Accepted Accounting Principles. A country must have some basic norms of accounting, which all companies must follow; such generally accepted norms are called GAAP. In India, for instance all companies must adhere to the various Indian Accounting Standards as published by the Institute of Chartered Accountants of India (ICAI). They also need to follow other principles such as those required by the Company Law. These collectively could be referred to as Indian GAAP.

There are some very significant differences between Indian and US GAAP. US GAAP requires much more stringent accounting treatment. For instance, US GAAP mandates the accounts of the subsidiaries to be consolidated with that of the parent company. This is not required in India and so the companies are free to hive off their loss making divisions into separate subsidiaries, so that their financial statements look attractive. Similarly in the absence of a mandatory provision for deferred taxes, Indian companies maintain separate accounts for Tax-reporting and shareholder reporting. The valuation of assets/liability can be different in these, so that the company can inflate profit figures in shareholder reports and suppress them in Tax-purpose reports. For instance, a company could report lower book depreciation and a higher depreciation for tax purposes. Most big companies such as Reliance for instance show zero profits in their tax statements. US GAAP, however, requires that this difference between the income tax payable as per the income tax book and that mentioned in the financial statements be accounted as deferred taxes. Infact extensive disclosures on deferred tax are required under US GAAP. Very few costs can be deferred and therefore it is very stringent.

Besides this US GAAP requires much stricter disclosure norms, to facilitate transparency. Disclosure by way of notes to accounts, as is practiced in India, does not sufficient under US GAAP. These disclosures are with respect to segment reporting, fair values of financial instruments, related party transactions, strategic investments and marketable securities, unfounded pension obligations. Unlike Indian GAAP, US GAAP makes it mandatory that even temporary diminution in marketable investments be directly adjusted against the shareholder’s equity, which reduces the net worth. In India, on the other hand, investments could be carried at costs in the balance sheets while their actual market might be much less. Similarly provision for amortization is much stricter as per US GAAP. For financial institutions, US GAAP mandates much stricter NPA norms. No wonder most Indian companies report lesser profits when they publish accounts under US GAAP. Infosys for instance reported lesser profits under US GAAP, than under Indian GAAP mainly because of the consolidation of the accounts of its loss-making subsidiary- Yantra Corporation. Reliance, ICICI, SBI is just a few amongst a host of topical examples in this regard.

However, the belief that profits are always lower under US GAAP is a myth. Corporation Bank, HCL Info systems, Hughes Software’s have reported higher profits under US GAAP than under Indian. But generally, it has been observed that profits under US GAAP are definitely lower.

That brings one to a significant question, if profits are lower under US GAAP, why are Indian companies making a beeline to publish accounts under US GAAP. The most significant reason is the decision to raise capital abroad. For instance, MTNL, VSNL, IOC, Modi Rubber Kotak Mahindra, IDBI, Larson & Toubro and many more, are contracting big international accounting firms to publish the reconciliation of their accounts with US GAAP, as a prelude to floating their GDR issue. Then there are companies listed in the NYSE or NASDAQ, such as Infosys, ICICI etc. To get listed on NYSE or NASDAQ, an Indian company either needs to publish accounts under US GAAP, or expressly publish the reconciliation with Indian GAAP and the US GAAP in its financial statements.

Besides, accounting as per US GAAP enhances company profile and reputation. In a financial environment where the investor is getting increasingly cautious and aware, the companies have begun to understand that the investor will not even touch a company whose balance sheet is even remotely grey. US GAAP, in this situation, gets that unmistakable stamp of high quality, and makes the company an attractive investment proposition. . The stricter disclosure norms do ensure greater transparency and enhanced credibility in the capital market. To woo the international investor, thus, US GAAP is almost a must. With most Indian companies heading towards the western financial markets, therefore, accounting as per US GAAP, has become an essential ritual.

Besides it facilitates benchmarking and comparability. It is also seen to bring elements of corporate governance and transparency. The stricter NPA norms under US GAAP have meant much healthier asset profile for Indian private banks such as ICICI and Corporation bank.

With globalization and the increasing mobility of capital across borders, US GAAP seems to be emerging as the standard accounting principle of the world at large. The differences between IAS and US GAAP bothering European finance-gurus will also need to be ironed out. US GAAP could well be the key to a seamless financial market.

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