P: ISSN NO.: 2394-0344 RNI No.UPBIL/2016/67980 VOL-4* ISSUE-10* January- 2020
E: ISSN NO.: 2455-0817 *Remarking An Analisation*

Indian and International Accounting Standards: An Analysis

Abstract

The development of harmonized accounting policies and a uniformity of approach among countries towards Education and training on professional accountants should be based on certain principles. This approach requires a major transformation and radical change in the entire system to ensure uniformity among the financial statements of different entities of different countries. In the paper I discourse to study Indian Accounting Standard (IAS) and International Accounting Standards / International Financial Reporting Standards (IFRS). Finally, the submission of the standards set by the IAS / IFRS represent a walk forward in the process of accounting management or harmonization although there are still long miles to walk in the process of ensuring uniformity, comparability, and transparency in the accounting process over the globe.

Keywords: Harmonization, Uniformity, Comparability, Qualitative, Improvement, Mandatory, Disclosure, Accounting Policies.

Alok Kumar
Lecturer,
Dept. of Commerce,
Vanijya Inter College ,
Muzaffarpur, Bihar, India

Introduction

Accounting Standard is a selective set of accounting policies or board guidelines regarding the principles and methods to be chosen out of several alternatives. For the preparation of financial reports in almost all the countries of the world accounting Standards are used as regulatory mechanisms. The speedy growth of international trade and internalization of companies, the developments of new communication technologies, and the emergence of international competitive forces is disturbing the financial environment to a great extent. The objective of Accounting Standards is to harmonize the diverse accounting policies and practices at present in use in India with a view to include the reliability to the financial statements and eradicate the extent the non comparability of financial statements and. However harmonization does not mean that accounting standards should become very unyielding instead harmonization of accounting standards does permit flexibility to make the necessary adjustments to suit their purpose. The Institute of Chartered Accountants of India, figuring the need to bring into line the varied accounting policies and present use in India that has been constituted an Accounting Standards Board (ASB) on 21st April, 1977. The main function of ASB is to formulate accounting standards so the standards may be established by the council of the instate in India. One of the members of the International Accounting Standards Committee (IASC) has agreed to support the objectives of IACS while making the accounting standards. ASB will take into consideration the applicable law customs usage's and business environment. ASB will also give full consideration to international accounting standards issued by IASC while formulating the accounting standards, and also try to incorporate them to the extent possible in the lights of the conditions and parties prevailing in India. The accounting standards will be issued under the authority of the councils. ASB has also been given the accountability of circulating the accounting standards and of forcing the concerned parties to take on them in the preparation and presentation of financial statements. The Accounting Standards Board will give clarification on issues arising there from and will issue guidance notes on the accounting standards and. Accounting Standards Board will also evaluate the accounting standards at periodical intervals.

Objectives of the study

1. To study Indian Accounting Standards and International Financial Reporting Standards.
2. To understand the procedure for the issue of Indian Accounting Standards.

Research Methodology

While preparing this research article extensive help has been taken from the materials available on the internet. Both primary as well as secondary sources of information have been searched for relevant information to add value to this article. Extreme care has been taken to be objective and correct in the presentation of data, facts and ideas.

Procedure for issuing Accounting Standards

The Accounting Standards Board determines the broad areas in which Accounting Standards need to be formulated and the priority regarding the selection thereof. The ASB will be helped out by study groups constituted to consider specific subjects in the grounding of accounting standards. In the formulation of Study Groups, provision will be made for wide participation by members of the institute and other professionals having required knowledge and experiences.

The draft of the proposed standards will normally include the following:

1. Objective of the standards,
2. Scope of the standards,
3. Definitions of terms used in the standards,
4. Recognition and measurement principles, wherever applicable,
5. Presentation and disclosure requirements.

After the first draft is submitted to the Accounting Standards Board (ASB) by the Study Group, the ASB reviews the same. ASB may, after the review, confirm the draft or may recommend certain changes, modifications, additions or deletions to the Study Group. The revised draft is then referred to the council members of ICAI and other below listed bodies for their comments and reviews:-

1. Department of Company (DCA)
2. Comptroller and Auditor General of India (C&AG)
3. Central Board of Direct Taxation(CBDT)
4. The institute of Cost and Works Accountants of India (ICWAI)
5. The institute of Company Secretary of India (ICSI)
6. Associated Chambers of Commerce and industry
7. Reserve Bank of India (RBI)
8. Security and Exchange Board of India (SEBI)
9. Standing Conference of Public Enterprises (SCOPE)
10. Indian Banks Association (IBA)
11. Any other body considered relevant by the ASB keeping in view the nature of the Accounting standards.

Representatives of each specific body (as mentioned above) are called for discussion on the proposed Accounting Standard. Afterwards, the Exposure Draft of the proposed Accounting Standard is prepared based on the fruitful insights of the discussion. The same is then shared with the members of the institute, general public for their reviews. A copy of the Exposure Draft is specifically sent to the aforementioned bodies, stock exchanges and other interested groups. The ASB, after taking into consideration, the comments and views of all the parties will finalize the Draft of proposed standard and submit it to the council of ICAI.

The council, after consultation with the ASB would make necessary modifications/alterations (if any) will issue the relevant Accounting Standard. After the issuance of the Standard there may arise a need to revise the existing standard. Such revision if not substantive, may be made by ICAI by the limited revision of the Accounting Standard. However, the procedure to be followed for the limited revision would substantially be same as followed originally for the issuance of the Standard. Thus, ensuring reasonable opportunity of being heard is given to all the interested groups and parties before implementing any changes to the relevant standard.

Income tax and Accounting Standards

To match the difference between Book Profits (Accounting Income) and the Taxable income as per Income Tax Act, ICAI has issued Accounting Standard 22.

1. Accounting income is the Profits before tax (PBT) as per the Profit and Loss account of the business/entity.
2. Taxable income of an assessee is the net taxable income as per the provisions of the Income Tax Act, 1961 & the related Rules.

Types and Reasons of Differences

Broadly these differences are of two types:

Timing Difference

Timing differences are those differences which occurs due to difference in timings of taxation of income or allowance of an expense as per Income Tax Act and as per book profits. Such differences are to be reversed in one or more subsequent periods. For example, as per WDV method depreciation is allowed for computing taxable income and as per SLM method for computing accounting income.

Permanent Difference

As the name suggests, Permanent differences are those differences between accounting income (book profits) and taxable income as per Income Tax Act which cannot be reversed any subsequent period. For instance, Donation that paid through hard cash will not be allowed in computing taxable income whereas it is allowed as expenditure while computing accounting income.

Some other reasons for differences between accounting income and taxable income are listed below:

1. Expenses deduction in profit and loss statement, but disallowed as per Income Tax Act 1961, while computing taxable income
2. Provision made for Bad/doubtful debts allowed while computing accounting income, but disallowed while computing taxable income
3. Difference in rates of depreciation as per Companies Act 2013 and Income Tax Act 1961
4. Any income recognized on an accrual basis in profit and loss statement but on receipt basis in subsequent period while computing taxable income. To explain for these kinds of differences, AS 22 needs to be applied.

When to apply AS 22 for Taxes on Income?

AS 22 is applied when there are differences between taxable income and accounting income. If accounting income is greater than taxable income as per Income Tax Act, then it will lead to creation of Deferred Tax Liability. On the other hand, if Taxable income as per Income Tax Act is greater than accounting income, then it will result in creation of deferred tax asset.

Deferred tax assets should be recognized only if there is a reasonable certainty of its realization. Also, the recognition should be limited to the extent of the reasonable certainty of the expected realization. The reasonable conviction can be determined by making the realistic accounting estimates of future profits based on the examination of profits and loss statement of previous phase.

Say, an entity has unabsorbed some reductions or carry forward of losses. In this case, deferred tax asset should be recognized to the extent there is a reasonable virtual certainty supported by sufficient evidence. Virtual certainty is a matter of judgment of convincing the testimony, which should be available in a concrete form at a particular date.

How to apply AS 22 Accounting for Taxes on Income?

Let's understand this with the help of a practical illustration –

Example of Timing Difference

Particulars	Year 2XX1	Year 2XX2	Year 2XX3
Profit before tax or PBT (A)	100,000	200,000	180,000
Depreciation as per Companies Act (B)	25,000	25,000	25,000
Accounting income [(A-B) =C]	75,000	175,000	125,000
Depreciation as per Income tax (D)	50,000	0	10,000
Taxable income [(A-D) =E]	50,000	200,000	170,000
Timing difference [(C-E) =F]	25,000	25,000	15,000
Current tax @ 30%	15,000	60,000	51,000
Deferred tax (F * 30%)	7,500	(7,500)	(4,500)
Total tax expense	22,500	52,500	46,500
Profit after tax	52,500	122,500	78,500

Deferred Tax Computation

Particulars	Year 2XX1	Year 2XX2	Year 2XX3
Opening balance of timing difference	0	25,000	0
Addition	25,000	0	15,000
Deletion	0	25,000	0
Closing balance of timing difference	25,000	0	15,000
Deferred tax @ 30%	(7,500)	7,500	4,500
DTA/DTL	Creation of DTL	Reversal of DTL	Creation of DTA
Journal Entry	P & LA/c Dr. To DTL	DTL Dr. To P&L A/c	DTA Dr. To P&L A/c

International Financial Reporting Interpretations Committee (IFRIC 23)

IFRIC 23 also accounts for Uncertainty in treatments of Income Tax. It needs an entity to treat uncertain tax treatments depending on which method will be best suited for its resolution. Difference between the AS 22 and IFRIC 23 is that IFRIC 23 need a unit, while figuring the current and deferred income tax assets and liabilities, to carry out an assessment whether it is possible that taxation authority will accept an uncertain tax treatment. If it is not possible, then the entity should reflect that uncertainty through either expected value approach or most likely approach.

IFRIC 23 will be valid for annual reporting periods commencing on or after 01.01.2019.

Conclusion

The objective of AS and IFRS is to improve the relevance, reliability and comparability of information that a reporting entity provides in its financial statements to all its stakeholders and other users. Harmonization of Accounting Standard is a need to foster development of the global economy. This will result in true and fair presentation of financial statements that can be easily accessible to all the potential users including potential investors. Furthermore, the harmonization of accounting rules and principles among countries should also be accompanied by inter country harmonization in auditing principles and standards. Harmonization initiatives have now carried out effectively than ever before. Many of the initial hurdles have already been overcome and however there is still a long way to go.

References

International financial reporting standards (IFRS) including International Accounting standards (IAS) and interpretations as on 1st January, 2006.

S.Chand 'Tulsian' Financial Reporting by CA (Dr.) P.C. Tulsian and CA. Bharat Tulsian.

Taxmann 'Students Guide to Accounting Standards by Dr. D.S. Rawat, 36th edition.

The American Institute of Certified Public Accountants (AICPA) IFRS Resources.

http//:www.icai.org/ e-journal

https://www.ifrs.org