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**AN INVESTIGATION INTO RECENT CHANGES TO
ACCOUNTING REGULATION IN INDIA**

A thesis presented in fulfilment of the requirements for the degree of

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ABSTRACT

In April 1977 the Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (ICAI) was formed to harmonise the diverse accounting policies and practices of various enterprises at that time. The ASB undertook the task of considering the International Accounting Standards (IASs) and/or International Financial Reporting Standards (IFRSs) and integrating them into the laws, customs, usages and business environment present in India.

The current study investigates the rationale of the step of adapting the IFRSs to the Indian context focussing on the formulation of accounting standards in India, by examining the accounting environment of India, describing the approach taken by India while adapting IFRSs, identifying the response of Indian companies to IFRSs and the factors that influenced the Indian Government and hence the profession, to take this step.

This study contributes to the existing body of literature through explaining the rationale behind the adaptation of IFRSs in India by exploring the culture of the country and relating that to the accounting values of the country. This project examines the issue by taking-up an in-depth study of the rationale behind the adaptation of IFRSs to the Indian context, whereas most of the available literature regarding India explains only a part of the issue and is brief in nature. This study also contributes to the literature by exploring the influencing factors in a systematic manner.

Key Words: IFRSs, India, ICAI.

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CHAPTER ONE

INTRODUCTION

1.0 Background

The regulation of accounting by government through its agents was necessitated in India during the 1960s when the financial reporting system was criticised on some strong grounds. Firstly, comparing different companies was difficult due to the lack of uniformity in accounting practices and secondly, the existence of multiple accounting practices allowed company managers to select alternative presentations of financial results, which made it possible for them to manipulate earnings and conceal economic realities (Banerjee, 2002a). On the other hand, changes took place internationally in the accounting environment, due to initiatives by the International Organisation of Securities Commission (IOSCO) towards propagating International Accounting Standards (IASs), issued by the International Accounting Standards Committee (IASC), as the uniform language of business to protect the interests of international investors. The Institute of Chartered Accountants of India (ICAI) took the leadership role by establishing the Accounting Standards Board (ASB), to fall in line with national and international expectations (www.icai.org).

The ICAI formed the ASB in April 1977 to harmonise the diverse accounting policies and practices in India (www.icai.org). The main function of the ASB is to formulate accounting standards. The ASB gives due consideration to the International Financial Reporting Standards (IFRSs)¹ and tries to integrate them into the laws, customs,

¹ Since 2001, International Accounting Standards (IASs) are known as International Financial Reporting Standards (IFRSs). For the purpose of this study, the term IFRS is used to mean both IFRSs and IASs.

usages and business environment prevailing in India (www.icai.org). The ICAI issued its first standard in 1979 and then 26 other standards between 1981 and 2002, making all but one mandatory in different phases (Banerjee, 2002a).

The adoption of the IASs by developing countries has been observed by various authors (Chand, 2001; Hove, 1989; Perera, 1989). These studies raise considerable issues such as administrative difficulties and technical problems in preparing financial reports (Chand, 2001) and the inappropriateness of the IASs to developing countries (Hove, 1989; Perera, 1989). On the other hand, some studies examine the relation between the adoption of IASs by a specific country and an influencing factor, such as the development of the equity market (Larson and Kenny, 1995). While stressing the importance of regional harmonisation, others have raised the issue of non-representation of the Association of South East Asian Nations (ASEAN) countries in the international accounting standard setting process (Saudagaran and Diga, 1997). Regional accounting harmonisation views harmonisation as occurring among neighbouring countries.

Some researchers questioned the lack of any locally developed accounting standards in developing countries (Ali, Ahmed and Henry, 2003). Ali, Ahmed and Henry (2003) investigate the reporting practices in the annual reports of a sample of Indian companies listed on the Bombay stock exchange by taking 15 IASs as the basis, that have been adopted by India. The authors conclude that disclosure compliance is higher for standards regarding depreciation; inventories; property, plant and equipment. The higher compliance is due to detailed disclosure requirements under the Companies Act. On the other hand, the authors have shown concern as the level of

compliance with standards regarding accounting for leases and accounting for business combinations is low.

There does not, however, seem to be any study explaining the rationale behind the change in accounting regulation in India.

Accounting regulation refers to "*the act of making accounting process regular, and/or the act of controlling, governing, correcting and adjusting it by rule or provision of law*" (Banerjee, 2002a, pp.2-3).

Accounting regulation in India comprises of Companies legislation (Companies Act 1956) presently known as Companies (Amendment)/(Second Amendment) Act 2002, the stock exchange listing requirements, that is, Securities and Exchange Board of India (Amendment) Act 2002 and Indian Accounting Standards. Most of the available literature regarding India observes only the differences between the Indian Accounting Standards (ASs) with IASs and/or US Generally Accepted Accounting Principles (GAAP) (Iyer, 2001; Iyer, 2002; Narayanswamy, 1997).

A recent study by Banerjee (2002a) examines the compliance of a sample of Indian companies with the ASs. The author concludes that the level of compliance of Indian companies with these accounting standards seems to be good. The study does not provide a detailed explanation of the rationale behind the change in accounting regulation in India that involves the adaptation of IFRSs.

The current study proposes to explain the rationale behind the change in accounting regulation in India, focussing on the formulation of accounting standards. To achieve this aim, it considers both the similarities and dissimilarities between ASs and the corresponding IFRSs, and the voluntary compliance of Indian companies with IFRSs. Testing the level of voluntary compliance by Indian companies with IFRSs seems relevant, as this will give us an indication of the extent to

which IFRSs are embraced by Indian companies. The present study also considers the culture of India in order to explain the rationale behind the change in accounting regulation in India. Various aspects of the accounting ecology of India has been considered for the current research due to the concerns shown by various authors in regard to the adoption of the IASs by developing countries (Chand, 2001; Hove, 1989).

1.1 Aim and objectives of the research

The aim of the present study is to explain the rationale behind the change in accounting regulation in India, focussing on the formulation of accounting standards.

In order to achieve the aim, the current research will have the following objectives:

First, to identify the concerns shown by various authors in regard to international harmonisation of accounting standards with special reference to developing countries.

Second, to explain the country profile of India and its relation to the accounting environment of the country.

Third, to describe the approach taken by India while changing its accounting regulation.

Fourth, to identify the response of Indian companies to IFRSs.

Fifth, to discuss the factors that influenced the decision to adapt the IFRSs.

1.2 Research methodology

According to Burrell and Morgan (1979) there are several assumptions about the nature of social science, in regard to its ontological, epistemological, human and methodological nature. The

nature of science can be thought of in terms of a subjective-objective dimension, and assumptions about the nature of society in terms of a regulation-radical change dimension. The subjective view of the nature of science tries to understand the way individuals create, modify and interpret the world in which they find themselves. On the other hand, the objective view treats the social world as hard and external. The researcher subscribing to this second view focuses upon an analysis of relationships and regularities between different elements, which it comprises (Burrell and Morgan, 1979).

The "*sociology of regulation*" (Burrell and Morgan, 1979, p.17) refers to the writings of theorists who are mainly concerned with providing explanations of society in terms that stress its underlying unity and cohesiveness. On the other hand, "*sociology of radical change*" (Burrell and Morgan, 1979, p.17) is mainly concerned with finding a rationalisation for radical change, inherent structural conflict, modes of domination and structural contradiction, which its theorists see as characterising modern society.

On the basis of assumptions about the nature of social science, Burrell and Morgan (1979) suggest four distinct sociological paradigms, i.e., radical humanist, radical structuralist, interpretive and functionalist. These four paradigms represent principally different perspectives for the analysis of social phenomena. They are based on different meta-theoretical assumptions regarding the nature of science and of society.

The radical humanist paradigm has much commonality with the interpretive paradigm, since it views the social world from a nominalist, anti-positivist, voluntarist and ideographic viewpoint. The radical humanist approach emphasises radical change, modes of domination, emancipation, deprivation and potentiality. The idea of

structural conflict and contradiction do not however figure in most parts within this perspective, since they are features of more objectivist views of the social world (Burrell and Morgan, 1979).

The radical structuralist paradigm is dedicated to radical change, emancipation and potentiality, in an analysis that stresses structural conflict, modes of domination, contradiction and deprivation. It focuses these general concerns from a realist, positivist, determinist and nomothetic standpoint (Burrell and Morgan, 1979).

The functionalist paradigm addresses general sociological concerns from realist, positivist, deterministic and nomothetic standpoints (Burrell and Morgan, 1979).

The interpretive paradigm includes a broad range of philosophical and sociological thought which shares the common feature of attempting to understand and explain the social world mainly from the perspective of the actors directly involved in the social process (Burrell and Morgan, 1979).

The use of the interpretive paradigm has been advocated by a large number of researchers (Jonsson and McIntosh, 1997; Morgan, 1988). Morgan (1988) suggests that the knowledge of human beings can only create a weak and rather uni-dimensional representation of the world. Accountants are involved in interpreting a complex reality, in a way that is heavily weighted in favour of what is possible to be measured by them and which they choose to measure, through the particular schemes of accounting to be adopted. In real life, many people know that the accountant's work is based on some arbitrary assumptions and conventions. They believe that the accountant tries to persuade others that his or her concepts have superior insight; while in reality these concepts are partial as any other.

Rahim, Rahman and Goddard (1998) followed interpretive methodology to study accounting practices embedded in two religious organisations in Malaysia. The authors propose that interpretive methodology using ethnographic methods of inquiry helps in properly understanding the culture and value systems of these religious organisations together with the accounting technology used in these organisations. They also advise that the interpretive schema is a useful conceptual framework to theorise the relationship between culture and accounting practice. It establishes a significant link between the system of notions that direct the actions of individuals and the actual behaviour of individuals whilst recognising the complex interrelationship between these two modes.

The interpretive paradigm has been adopted by Scheytt, Soin and Metz (2003), while exploring the characteristics of control with regard to different regional cultures. These authors opine that control as an everyday life experience has various interrelated social, political, cultural and moral implications, which should not be taken as "*biases*" to an "*objective definition*" or "*correct*" practice of control (p.530). These authors argue that a narrative approach such as that used in their study, enables one to take a different view of the complexity and embedded nature of the concept of control.

In line with the explorative studies conducted by Rahim, Rahman and Goddard (1998) and Scheytt, Soin and Metz (2003), this study will adopt the interpretive paradigm. The present study will adopt the interpretive paradigm as suggested by Burrell and Morgan (1979). This paradigm provides an appropriate basis for the present study to explain the social world, that is, the rationale behind the changes in accounting regulation in India, focussing on the formulation of accounting standards. As an individual researcher, I believe that

reality is the product of one's mind and not that it already exists in the world. I also believe that knowledge should be experienced, not acquired.

Within the interpretive paradigm, 'Institutional Theory' will be used to explain the rationale behind the change in accounting regulation in India. This is due to the strength of this theory in explaining external and internal pressures exerted on organisations to conform to an institutional pattern. The following subsection explains institutional theory that has been employed in this study.

1.3 Institutional Theory

Scott (1987) states that 'institutionalisation' is viewed as "*the social process by which individuals come to accept a shared definition of social reality- a conception whose validity is seen as independent of the actor's own views or actions but taken for granted as defining the ways things are, and/or the ways things are to be done*" (Scott, 1987, p.496). 'Institutionalisation' refers to *the processes "by which the expectations of society of appropriate organisational form and behaviour come to take a rule-like status in social thought and action"* (Covaleski and Dirsmith, 1988, p.562). The word 'institutional' refers to "*(a) a rule-like, social fact quality of an organized pattern of action (exterior), and (b) an embedding in formal structures, such as formal aspects of organisations that are not tied to particular actors or situations (nonpersonal/objective)*" (Zucker, 1987, p.444).

Products, services, techniques, policies, and programmes that are institutionalised function as powerful myths, and many organisations adopt them ceremonially (Meyer and Rowan, 1977). In regard to inter-organisational relationship formation, institutional

theory is valuable in helping to describe the reasons behind firms behaving the way they do (Barringer and Harrison, 2000).

Institutional theory is useful in explaining accounting choice in organisations where self-interest maximising actors cannot exert effective influence over the choice of accounting practices due to their relative power positions in their organisations (Carpenter and Feroz, 2001).

Institutional theory has been adopted in addressing accounting issues by various authors. Carpenter and Feroz (2001) used institutional theory to explore the way institutional pressures exerted on four state governments in the United States (U.S.), namely, New York, Michigan, Ohio and Delaware, influenced the decision of these governments to adopt or resist the use of GAAP for external financial reporting. The study reveals that coercive institutional pressure stems mainly from resource dependence on credit markets that was associated with early adoption of GAAP.

Kenny and Larson (1993) explain the role of lobbying in international accounting standards setting and examine the process followed by the IASC in regard to promulgation of IAS 31- Financial Reporting of Interests in Joint Ventures. The authors incorporate aspects of institutional theory as it relates to strategic choice by organisations. The study reveals that the interaction between respondents and the IASC is consistent with an institutional theory explanation of organisational change and adaptation of environmental pressures. Respondents from the US/United Kingdom (UK) group were less likely to support Exposure Draft 35 on 'Financial reporting of interests in joint ventures' (ED-35) than were respondents from other countries, such as France, South Africa, Japan, Sweden and Switzerland. This led the IASC to modify ED- 35 to allow the equity

method for accounting for jointly controlled entities together with the modification of descriptions and requirements for disclosures in accordance with the comments of respondents. This action is consistent with institutional theory because to be legitimate and survive IASC must remain acceptable to its constituency.

Chalmers and Godfrey (2004) used institutional theory together with legitimacy theory to explain the response of managers to derivative financial instrument disclosure requirements, proposed by the Australian accounting standards setting bodies and the Australian Society of Corporate Treasurers (ASCT). Only 41 firms pre-committed themselves to an ex ante disclosure policy until 1995. After ED 65 was released by the Australian Accounting Standards Board (AASB) and the ASCT Industry Statement (an ex ante effort to coerce enhanced disclosures), 96 firms disclosed the information in 1995 and 105 in 1996. The study reveals that the concerns of managers regarding legitimacy and reputation combined with institutional pressures led them to be responsive to information demands, which are seen to be effective conduits for attaining enhanced disclosures. In this regard, reputation costs of managers have been proxied by the affiliations of firms with professional bodies such as the ASCT and G 100², in addition to the reputation of firms' auditors.

The present study will adopt the concept developed by Di Maggio and Powell (1983) who have theorised about the different processes that might result in an organisation changing its structure in ways that make it conform to or become isomorphic with an institutional pattern (cited in Scott, 1987).

² Group of 100 is an association of senior accounting and finance executives who represent the major public companies and government owned enterprises in Australia.

'Institutional Theory' provides an excellent basis for identifying the factors that have influenced the current situation of transformation of accounting regulation in India that involves the adaptation of IFRSs. This theory has been applied in the current research to understand the pressures arising from various parties on the ICAI, such as the World Trade Organisation (WTO), the World Bank and the International Monetary Fund (IMF) to conform to the IFRSs.

1.4 Research Method

This study uses the following methods:

Firstly, it conducts an extensive survey of the literature that addresses various issues associated with the applicability of international accounting standards in developing countries together with the level of harmonisation achieved by the IASC. Various authors (Chand, 2001; Larson and Kenny, 1995) question the suitability of IFRSs to developing countries. This study investigates the rationale behind the decision to adapt IFRSs by the ICAI in India.

Secondly, the study provides the country profile of India, taking the model suggested by Gernon and Wallace (1995) as the basis.

Thirdly, the study performs an empirical examination of the level of adaptation of IFRSs by the ICAI in formulating the ASs, to describe the approach taken by India while changing its accounting regulation to adapt IFRSs.

Fourthly, annual reports of a sample of Indian companies have been examined to search for their level of voluntary compliance with IFRSs. It provides an indication of the response by Indian companies to IFRSs.

Finally, the study investigates the factors that influenced the decision by the ICAI to adapt IFRSs, taking an Institutional theory approach. It seems that India adapted the IFRSs due to external and internal pressures.

1.5 Chapter outline

The rest of the thesis will be organised in the following manner:

Chapter Two: Prior research

This Chapter explains the wide range of studies available regarding international harmonisation by dividing them into three broad categories, namely, harmonisation issues concerning specific countries with special emphasis on developing countries, measurement of international harmonisation and factors influencing the practice of accounting. This chapter places the current research within the context of available literature and explains its contribution to knowledge.

Chapter Three: From harmonisation to convergence

This chapter explains the shift of emphasis from harmonisation of accounting standards to convergence and its probable impact on developing countries.

Chapter Four: India- country profile

The Chapter explains the accounting ecology of India in terms of the framework suggested by Gernon and Wallace (1995). This chapter provides a background to accounting standards and practices in India. This was thought necessary in understanding the change in accounting regulation in India.

Chapter Five: Comparison of the IFRSs and Indian accounting standards

The chapter compares the IFRSs as in 2002 with the ASs as at July 2002 in detail.

Chapter Six: Survey of annual reports- Practice

The Chapter examines the voluntary compliance of a sample of Indian companies with the IFRSs.

Chapter Seven: The adaptation of IFRSs in India- an Institutional Theory perspective

This chapter explains those pressures that influenced the decision by India to adapt the IFRSs. This chapter discusses the issue by adopting the Institutional theory developed by DiMaggio and Powell (1983).

Chapter Eight: Analysis and Discussion

This chapter discusses the changes made by the ASB to some IFRSs and provides an understanding of the probable reasons behind those changes made by the ASB, by taking the culture of the country into account.

Chapter Nine: Conclusion

This chapter summarises the main findings of the study and explains the contribution to knowledge of the current research. This chapter also identifies the areas where future research is required.

CHAPTER TWO

PRIOR RESEARCH

2.0 Introduction

The issue of international harmonisation of accounting standards has been the focus of attention by a large number of researchers. The available literature can be identified in three categories. These are: country-based studies, measurement of international harmonisation and factors influencing accounting practice.

An examination of country-based studies helps in identifying the issues raised by various studies in regard to international harmonisation focussing on specific countries. This leads to the framing of a coherent research methodology in the Indian context that will focus on most of the significant issues that need to be addressed for India. The review of articles in the Indian context under the category of country-based studies reveals those studies that already exist in the Indian context and the requirements for further research. On the other hand, studies regarding the measurement of international harmonisation give an idea of the extent to which the accounting practices of various countries are harmonised. These studies provide an indication regarding the acceptability of IFRSs throughout the world. These studies motivate the current study to explain the rationale behind the change in accounting regulation in India, which involves the adaptation of IFRSs. Finally, an examination of factors influencing accounting practice leads to the question of what factors might have influenced India to adapt IFRSs and whether India took the decision to adapt IFRSs due to external and internal influences. The studies in each of these categories are discussed in this chapter.

2.1 International harmonisation of accounting: country-based studies

The available literature in this category can be discussed under two broad headings, namely, de facto harmonisation and de jure harmonisation. Garrido, Leon and Zorio (2002) define de facto harmonisation as "*harmonization between practices applied by companies, regardless of whether such practices are affected by regulations.*" On the other hand, de jure harmonisation refers to "*harmonisation between regulations*" (Garrido et al., 2002, p. 3).

2.1.1 de facto harmonisation

The country-based studies mainly examine the adoption of the IASs by companies with the help of two methods, namely, observing the respective annual reports of companies or taking a questionnaire survey. There seems to be a wide range of articles covering various countries.

Joshi and Ramadhan (2002) examine accounting practices and the degree of adoption of IASs by small and closely held companies in Bahrain. The study reveals that 86% of the 36 companies who responded to the questionnaire considered the IASs to be relevant to them and applied the IASs. However, some of the IASs were considered totally irrelevant to the economy of Bahrain, such as IAS 15: Information reflecting the effects of changing prices, IAS 29: Financial reporting in hyperinflationary economics, and IAS 22: Accounting for business combinations. Joshi and Ramadhan (2002) state that the main reason behind this adoption of IASs by companies is the need to standardise the financial process in order to provide a common ground for comparison and analysis. Other reasons are the influence of the expectation of improving the efficiency and

effectiveness of financial reporting and thus firms' objectives together with the influence of banks, credit providers and the desire to improve their credit rating for purposes of obtaining external financing and last but not least, the influence of auditors.

Chamisa (2000) examines the compliance of four published annual reports of the 40 Zimbabwe listed companies, belonging to the years 1975, 1980, 1985 and 1990 with the IASs 1 to 22. The reason behind the collection and examination of four published reports for each company was to enable the assessment of the compliance level before and after the publication of the first 22 standards issued by the IASC, except in the case of IAS 1 issued in 1975. The checklist of disclosures excluded from the examination those provisions of IASs 1 to 22, which are also required to be disclosed under the Zimbabwe Companies Act. Chamisa (2000) opines that the IASC standards are relevant to Zimbabwe and similar capitalistic developing countries, as the listed companies from Zimbabwe voluntarily and notably comply with certain provisions of IASs. On the other hand, Evans and Taylor (1982) opine, after examination of the financial statements of a sample of companies from five countries, namely- France, Japan, the U.K., the U.S. and West Germany, who were the IASC members at the time of the study, that the IASC has had very little impact on the practices of accounting of the countries surveyed. Except for a few instances, a country following a particular method prior to promulgation of the IASC standard continued to follow the same practice after the issuance of the standard. This can again be supported by the result obtained from an examination of the 1985 annual reports of 200 randomly chosen U.S. listed companies with three areas of disclosure requirements under IASs where there is no U.S. GAAP. The compliance with these disclosure requirements is

coincidental, and most listed U.S. companies do not comply with IASs where the U.S. GAAP does not cover these requirements (Nobes, 1990). This suggests that the IASC standards are not even embraced by companies in capitalistic countries. Hence the notion that these standards will be embraced by companies in capitalistic developing countries is questionable.

In between the extremes of applicability/ non-applicability of the IASC standards as reflected in the studies cited above, Street, Gray, and Bryant (1999) report the accounting policies and disclosures of a sample of 49 major companies from different parts of the world, which claimed to comply with the IASs in the year 1996 represented both in the *Worldscope* and *Financial Times* databases. The study principally addresses the extent of compliance with the IASs revised during the comparability project. The authors reveal that the overall degree of compliance by companies claiming to comply with the IASs is very mixed and to some extent selective. This research re-establishes the importance of the acceptance and observance issue for the IASC. The authors suggest that national standard-setters and regulators are required to work more closely with the IASC to eliminate notable differences between national accounting guidelines and IASs.

There are some studies, which suggest a relationship between a factor(s) and the observance of the IASs. For example, Murphy (1999), after examining a group of 189 companies from the *Worldscope* November 1995 database and *Moody's International* manuals, reveals that the companies with higher levels of foreign activity observe some advantages from preparing financial statements using International standards, while those companies not having any foreign activity do not. On the other hand, Taplin, Tower, and Hancock

(2002) analysed 60 annual reports from companies in Australia, Hong Kong, Malaysia, Philippines, Singapore and Thailand, to create several compliance indices by taking all universally applicable IASs of 1997 as the base. The authors, after comparing the IASC rules of 26 IASs with the practices adopted in these company annual reports, reveal that the level of disclosures is low with economically strong countries and that it exhibited topical trends. The discernibility index constructed in this study was notably associated both with the country of reporting and with profit, and there was a moderately notable relationship with industry. The study reveals that it was more difficult to comment on whether companies in Malaysia, Singapore, Thailand and the Philippines have complied with the disclosure requirements of IASs in comparison with the companies in Hong Kong and Australia due to the high level of silence in the former countries. The same holds true for the measurement rules in IASs, although Australian companies were quieter in comparison to the companies in Hong Kong. This result suggests that de jure harmony does not necessarily bring about de facto harmony, considering the role of IASs in these countries. The study reveals that if silence were interpreted as non-conformity then the level of non-compliance would be much higher.

The study carried on by Razeed and Tower (2000) examining the extent of compliance by 30 randomly selected 1997 Indonesian annual reports with certain IASs, such as segment reporting; foreign exchange; property, plant and equipment, reveals that the level of ownership concentration was notably associated with the level of compliance with these IASs, whereas the return on assets was moderately associated with the level of compliance with the IASs by thirty Indonesian listed companies. The main reason suggested behind the lower level of compliance by the sample of companies is the

unique nature of the business environment of Indonesia with its unique ownership concentration. Similarly, Herrmann and Thomas (1995), following an examination of the extent to which the current accounting practices are harmonised by taking eight countries from the European Community (EC) as a case study, opine that, on a regional basis, the U.K., Ireland and France seem to be more harmonised with the rest of the EC countries, while Portugal and Germany seem to be most dissimilar. This suggests that the fairness-based countries are more harmonised than legalistic countries. The highest degree of harmonisation has been found in regard to foreign currency translation and inventory valuation.

Some studies question, by observing a sample of companies, whether de jure harmonisation brings about de facto harmonisation. Chen, Sun, and Wang (2002) find no evidence that the Chinese government's efforts eliminated or notably reduced the differences between Chinese and IAS earnings despite harmonised accounting standards. The authors, after examining a sample of 75 companies, reveal that despite the high expectation of China and abroad, no evidence of the elimination or notable reduction of the earnings gaps took place immediately even after the harmonisation under the 1998 regulation. Secondly, the seven revised methods in the 1998 regulation specifically intended to eliminate differences between Chinese GAAP and the IASs also failed to eradicate or notably reduce the earnings gap. The authors further state that though these seven revised methods are similar to the IAS, their result supports the claim that the harmonisation of Chinese accounting standards with the IASs is not sufficient to harmonise accounting practices. Thirdly, the research also suggests that the continued gaps in regard to earnings develop links with a dearth of infrastructure. Likewise, Rahman,

Perera, and Ganesh (2002), after the comparison of accounting regulations and accounting practices of two countries, that is, Australia and New Zealand, who are engaged in a harmonisation programme, reveal that there is some relation between the levels of regulation harmony and practice harmony. Although this indicates that regulatory harmony can improve practice harmony, the relation is not strong as other factors, such as firm-specific characteristics, are also associated with accounting practice harmony.

A different approach towards obtaining comparable financial statements has been taken by McLeay, Neal, and Tollington (1999), as the authors suggest that the existence of alternative accounting treatments and the use by individual firms of the method, which is most suitable to them produces comparable financial statements. The authors reveal that there is notable diversity between the sample of interlisted European companies in regard to the application of accounting methods of goodwill and this does not itself indicate disharmony. Firms may have good causes for favouring one method over another, and in the absence of accounting manipulation these may be consistent with improving the comparability of financial statements.

An examination of literature in the context of de facto harmonisation suggests that not all of the IFRSs are suitable to respective countries (Joshi and Ramadhan, 2002). Some companies observe the IFRSs while others do not (Street, Gray, and Bryant, 1999). These de facto compliance studies highlight the significance of the acceptance and observance issues for the IASC as well. Some studies question whether de jure harmonisation leads to de facto harmonisation (Chen et al., 2002). These studies raise issues

concerning the level of compliance with international accounting standards in developing countries.

2.1.2 de jure harmonisation

Studies emphasising specific country-studies in regard to de jure harmonisation can be classified into two groups: (a) Studies dealing with developing countries and discussing the applicability of IFRSs to developing countries, and (b) Studies dealing with a specific country/ group of countries but not discussing the issue from a developing country perspective.

(a) Studies concentrating on developing countries:

Chand (2001) raises considerable issues regarding the adoption of IASs by developing countries, such as Fiji, by taking a case study approach. The author reveals the difficulties in regard to the use of IASs for the preparation of financial reports as opined by interviewees, such as administrative difficulties and technical problems, problems in regard to standards that are not specific and costs associated with the use of IASs. In this context, administrative difficulties refer to the cost burden of training the members of the Fiji Institute of Accountants (FIA) together with the burden of implementing these IASs in terms of the whole mechanism of printing and circulation and making sure that the people are aware of them. Problems may also arise due to the fact that IASs are not specific and hence require judgement by the preparer. Hence, it may be difficult for the FIA members to understand how to apply them. The author suggests that developing countries should get together and develop standards that are more relevant to them rather than adopting the IASs, as some major countries, such as the UK and the US, have an

influential role in both the International Federation of Accountants (IFAC) and the IASC, and little attention has been given by the IASC to the developing countries. The 'Developing Countries Project' of late 1980s has disappeared since nothing notable was done to support the developing countries. However, recently the IASC has again stressed its concern for developing countries, but mainly catering to the needs of East European countries, which shows that the drive of the IASC is towards where there is money and towards a considerable market for investors, rather than a focus on helping the developing countries by framing standards in the areas of interest of these countries or by supplying necessary resources to these nations.

The advantage of adoption of the IASs by developing countries has been questioned by Larson and Kenny (1995), as after examining 27 developing countries including India, the authors opine that their study does not give an indication of a major association between the development of the equity market of developing countries and their economic growth with the adoption of the IASs. Instead the authors' path coefficients suggest a negative association when the IASs are adopted, although they are smaller than those of most other environmental factors, such as education, in the model, thus revealing that other factors are more significant. This study establishes that the mere adoption of the IASs does not necessarily bring about greater equity market development or greater economic growth. Similarly, Hove (1989) opines that the disclosure requirements of IAS-24 are highly inadequate and/or inappropriate for the needs of Less Developed Countries (LDCs). This is due to transnational corporations (TNCs) in LDCs using unfair transfer prices, as a result of those disclosure requirements of IAS-24 that are left to the profession and which are liberal. The author advises user- oriented normative model

for the disclosure of information on the transfer pricing practices of TNCs in LDCs. Hove (1989) suggests that there are likely to be some problems associated with the proposed model, such increased cost due to an increase in disclosure requirements and in regard to accounting policies, the possibility that a detailed explanation of accounting policies on inter-company transactions between the subsidiary and the parent company may fall into the hands of competitors. Another difficulty may be the lack of technical expertise of the LDC officials to investigate randomly some subsidiaries of a TNC. However, the author suggests that the model is believed to be realistic and deserves serious consideration by LDCs and international accounting authorities.

On the other hand, Tang and Tse (1986) describe the process of accounting technology transfer to a developing country, for example, Singapore. The authors argue that absence of a language barrier, a positive response from the Singapore Society of Accountants and the National University of Singapore to changing national needs, the involvement of multinational firms as a transfer agent, and the adoption of the standards issued by the IASC and the IFAC, with some modifications, to suit local conditions have proved to be a cost effective approach to upgrading accounting standards in Singapore. Tang and Tse (1986) opine that Singapore has effectively developed its accounting technology by following these steps. However, it can be argued that their study does not examine the social environment of Singapore and mainly emphasises the economic environment in the process of examining whether the IASC standards have successfully developed the accounting technology of Singapore. Hence, it can be stated that the authors' opinion in this regard is questionable. This study emphasises the increase of multinational firms operating in Singapore due to the adoption of international standards as of 1978,

but does not discuss whether these standards serve the local needs of the country.

Ahmed and Nicholls (1994) examine the annual reports of 65 companies of Bangladesh belonging to the fiscal year 1987-88. The authors state that none of the companies complied with the existing mandatory disclosure requirements in regard to the Companies Act 1913 and the Securities and Exchange Rules (SER), 1987. However, the authors found a direct relationship between the degree of disclosure requirements met and the number of subsidiaries of multinational companies whose accounts were audited by large audit firms. Ahmed and Nicholls (1994) suggest the reasons behind the expected non-compliance in developing countries as being inadequate regulatory framework and enforcement mechanisms, and a lack of both an effective capital market and an accounting profession. The authors advise the accounting profession to strengthen its monitoring and enforcement mechanisms and increase its awareness of the existing mandatory provisions by conducting training programmes for its members on a regular basis.

However, it can be argued that Ahmed and Nicholls (1994) neglect another aspect of the problem of non-compliance by companies in Bangladesh, which might be attributed to the fact that the main source of the Companies Act of Bangladesh is the British Companies Act 1908 (Ali, Ahmed, and Henry, 2003) and therefore, the disclosure requirements of this Act may not be relevant in the accounting environment of Bangladesh. Secondly, though the Companies Act requires the companies of Bangladesh to prepare financial statements which reflect a 'true and fair view' and though laws on securities and exchange provide some guidelines for listed companies, there are no locally developed accounting standards to direct the preparation of these reports (Mir and Rahman, 2002).

Saudagaran and Diga (1997) reveal that there are two paradigms of accounting harmonisation, namely, global and regional. The global paradigm views harmonisation as occurring ideally on a worldwide basis, while the regional paradigm perceives harmonisation as occurring among countries that are geographically proximate. The authors attribute the reasons behind the deterrents to regional harmonisation of the ASEAN to the lack of a clear set of values that would facilitate regional accounting harmony, the dearth of economic integration, the lack of political infrastructure to facilitate harmonisation within a broad policy framework, and the absence of economic and political force to develop a regional vision without the fear of being marginalized in the global arena. This study deals only with the regulatory environment of these countries. The authors conclude that the ASEAN Federation of Accountants (AFA) should try its best to make its collective voice heard in the IASC discussion in order to ensure that the concerns and requirements of industrialising and economically developing countries are considered in any new international standards that emerge, as these ASEAN countries are adopting the IASs.

(b) Studies dealing with a specific country/ group of countries but not discussing the issue from a developing country perspective are as follows:

Craig and Diga (1996) analyse the similarities and differences among the six countries forming the ASEAN in regard to their financial reporting regulation practices. The authors found similarities regarding the objectives of financial reporting regulation and in the involvement of the private sector in setting and enforcing the accounting standards. Differences have been observed in each country's company law requirements, securities market regulations, procedures of accounting standards-setting and accounting standards content. The study states

that, except for the Philippines, all other ASEAN countries are attempting to harmonise their local standards with the IASC standards. Hence, the overall possibility of accounting harmonisation within the ASEAN depends to a great extent on whether regulators and professional accountancy bodies in each country can be convinced to rely more extensively upon the standards of the IASC. The authors in this paper conclude that the IASC's significant success in having its standards accepted in the ASEAN is noteworthy. This paper stresses the participation of the AFA in IASC deliberations that will enhance the bargaining power of the ASEAN.

Rahman, Perera, and Ganeshanandam (1996) study the accounting system of Australia and New Zealand to find out the harmony or disharmony between them. The research methodology used in this study by classifying both the disclosure and measurement requirements into: required; recommended or suggested; allowed or not required or not prohibited; not permitted respectively, can be utilised to identify areas of harmony and disharmony for the purposes of policy-making. It also provides ways of gaining valuable insights into the nature of the harmony or disharmony between the accounting rules of different countries. The authors suggest that the research design used in their study allows the measurement of formal harmonisation of accounting standards across countries.

Samuels and Oliga (1982) consider that there are three stages in the process of standard-setting in a country, namely-political, production of the standards and marketing of the standards. Regarding the political stage, Egypt moved towards opening its economy in the 1970s from the 'centrally planned economy.' At this time, the accounting profession wished to improve reporting practices and perceived the advantages of adopting international standards.

Accordingly, a new stock exchange was to be introduced in Egypt, and hence accepted standards in external reporting would help in the allocation of resources through the exchange. The enhanced collaboration of international audit firms and multinational business would be much simpler if accounting reports could be based on the same principles and practices. The reason behind this plan of adopting international standards by these bodies was to minimise the time consumption in the stage of production. However, 1981 turned to be a year of ups and downs for Egypt with the assassination of President Sadat resulting in an increase in the importance of Islamic ideas in banking and money, threatening the movement towards the capitalistic system based on Western ideas. This has probably interfered with the marketing stage of international standards in Egypt. Samuels and Oliga (1982) note that the adoption of international standards in this way is burdened with economic and political reasons rather than having the perception that this adoption is appropriate to developing countries such as Egypt. This is due to the fact that the information revealed by preparing the financial statements in conformity with international standards might facilitate international trade, but it might not supply the information required by developing countries in the context of financial costs and returns.

Collett, Godfrey, and Hrasky (2001) examine the case of the adoption of a stronger policy by the AASB regarding international harmonisation whereby compliance with Australian accounting standards ensures compliance with the IASs unless there are strong causes for non-compliance within the Australian institutional setting. The main reason for passing this legislation, and hence stressing the harmonisation programme, was the Australian Stock Exchange (ASX), which was the only organisation other than the IASC to make a written

submission supporting the immediate adoption of the IASs. However, corporate Australia, users, preparers, the accounting profession and key regulators were against the harmonisation programme. Corporate Australia was dissatisfied with some recent IASs thought to impose heavier burdens on preparers of accounts. On the other hand, the Australian Securities and Investment Commission (ASIC), responsible for corporate regulation in Australia, highlighted in its submission the probable loss of quality of accounting standards arising from a speedy adoption of the IASs. This study emphasises that the vested interest of a specific party in a country might influence the change in accounting policy of a country.

Warrell (1999) opines that even after the representations made by the majority of accounting and business submissions against the harmonisation of Australian accounting standards with IASs, the Government seems to have listened only to the ASX, and hence instructed the AASB to stop worrying about the problems involved with IASs and simply start adopting them with insignificant changes. The author considers that this may be detrimental to Australia, as the U.S. does not accept IASs for cross-border listings, which gives an indication that the IASs might not be suitable for use in every country in the world.

Ramcharran (2000) advocates the use of IASs throughout the world by taking the case of Russia. The author considers that the differences in regard to the values of assets, profits, and equity of Russia's largest banks based on a comparison of IAS and the Russian Accounting Standard (RAS) could have noteworthy implications for all aspects of the operation of international business. Hence, Russia needs to adjust more quickly to IASs to facilitate international business.

Finally, based on de jure compliance studies it can be concluded that some studies question the advantages of adopting IFRSs for developing countries, such as Fiji (Chand, 2001). Some studies reveal the forces that have led a country to adopt IFRSs (Collett et al., 2001). These observations provided motivation for the present study.

2.1.3 Accounting standards/ accounting practices in India

There does not seem to have been much research done taking India as a case study. The available literature generally emphasises comparison of an accounting system between India and other countries.

Bir (1998) reveals the differences in accounting practices between Indian and Australian companies. The author suggests that Australian investors intending to invest in Indian companies seek the assistance of reputable professionals in India so that informed decisions can be made. The study reveals that though the ICAI is a member of the IASC and issues accounting standards by taking the IASs as the basis, the Indian GAAP is significantly different from the IASC GAAP. Likewise, Iyer (2002) compares Indian standards with IASs. The author opines that the ICAI has issued several new ASs with the objective of moving nearer to the IASs and states that the new standards have significantly increased the requirements in regard to accounting and disclosure for Indian companies. Although the differences lie in detail between the new Indian standards and IASs, the requirements are similar in substance. However, the author did not explore the reasons behind these differences between newly issued ASs and their respective IASs.

Some studies have examined the differences between the Indian GAAP and IASs, for example, Narayanswamy (1997) reveals

the differences between the Indian GAAP and IASs. The author notes that after the economic reforms, India is rated as an emerging economic giant. The rise of India as a favoured destination for foreign investment has led to an increase of interest in its accounting system. Narayanswamy (1997) states here that the code of corporate governance that has been issued by the confederation of Indian industry stresses the need to enhance the standards of Indian financial reporting to internationally acceptable levels. However, it is significant to note that the author has not done a study of accounting regulation, and has just listed those areas where the Indian national requirements conform with the IASs, such as construction contracts and disclosure of accounting policies, together with those areas where the Indian national requirements do not conform with IASs, such as business combinations and consolidation and equity accounting. Similarly, Iyer (2001) examines the major differences and similarities regarding accounting and disclosure requirements between the Indian GAAP, IAS, U.S. GAAP, and the U.K. GAAP. The author contends that it is clear from the evidence that the ICAI is moving quickly to bring Indian accounting on a par with the rest of the developed countries with the view of making ASs more acceptable for analysis by foreign investors and analysts. This study also does not provide an in-depth discussion of each and every AS, but gives an idea of the main differences and similarities between the Indian GAAP and IASs in regard to measurement and disclosure requirements.

However, some studies have examined the Indian situation in general, questioning the benefits of new accounting standards brought by the ICAI in recent times. For example, it has been reported ("Falling Interest," 2002) that the ICAI is bringing more professional standards into the practice. However, it is questionable whether the

application of these evolving accounting and disclosure standards will reveal the true state of affairs at first sight, since Enron failed due to the lack of integrity with which these standards were applied not because of the dearth of accounting standards. The necessity to take disciplinary measures against those auditors who contravene the oath of their profession should be stressed, rather than bringing more professional standards into the practice ("Falling Interest," 2002).

Ali et al. (2003) examine the extent of compliance of 500 companies listed on the Bombay Stock Exchange, 150 companies on the Dhaka Stock Exchange and 300 companies on the Karachi Stock Exchange with 15 IAS required disclosure requirements. These 15 standards are:

- IAS 2: Inventories
- IAS 4: Depreciation
- IAS 7: Cash Flow statements
- IAS 8: Profit or loss for the period, fundamental errors and changes in accounting policies
- IAS 9: Research and development costs
- IAS12: Income tax
- IAS16: Property, plant and equipment
- IAS17: Leases
- IAS17: Retirement benefit costs
- IAS20: Government grants
- IAS21: Effect of changes in foreign exchange rates
- IAS22: Business combination
- IAS23: Borrowing costs
- IAS25: Investments
- IAS27: Consolidated financial statements and accounting for investment in subsidiaries, and
- IAS28: Accounting for investment in associates.

These standards have been adopted by India, Pakistan and Bangladesh as their national standards. The checklist comprises of 131 items required to be disclosed by these 15 standards. The authors conclude that disclosure compliance is higher for standards regarding depreciation; inventories; property, plant and equipment. The authors suggest that the main reason behind this compliance is the detailed disclosure requirements embedded in the Companies Act within each country. On the other hand, a low level of compliance has been found concerning accounting for leases and accounting for business combinations. The authors suggest the regulators within each country should take appropriate steps with a view to improving the situation.

It is significant to note that the authors of this article have not tried to provide an analysis of the approach taken by India while changing its accounting regulation. This would illuminate the factors behind a low level of compliance with these standards. The current study will explain the rationale behind the change in accounting standards in India.

2.2 Measurement of international harmonisation

Studies in this regard are of two types: some studies have analysed the issue in general, while other studies have analysed the issue by taking a specific country as the basis.

Garrido et al. (2002) provide an empirical measurement of the progress of the IASC throughout its harmonisation history. The result obtained by the authors proves that the IASC has made great progress in regard to the harmonisation level achieved through the accounting standards it has issued or revised. The authors recommend here that the IASC should work more towards greater formal harmonisation, which will further enhance the comparability of financial information by reducing the alternative treatments allowed in IASs. Similarly,

Banerjee (2002b) examines the vital characteristics of the standards in regard to earnings per share (EPS) issued by four accounting standard setting bodies, namely, the Financial Accounting Standards Board (FASB) of the U.S., the International Accounting Standards Board (IASB), the Accounting Standards Board (ASB) of the United Kingdom and the ASB of India. The author notes that the co-operative efforts between two standards setting bodies, that is- the FASB and the IASB, reveal important steps towards international harmonisation of accounting standards. There are similarities among these standards regarding the scope and objective; computation of basic EPS and diluted EPS; presentation and disclosure of EPS in the Income Statement. Standards issued by three national bodies, namely- the FASB of the U.S., the ASB of the U.K. and the ASB of India in this study are in agreement with IAS 33: Earnings per share, and the IASB has accordingly encouraged harmonisation internationally through the issuance of IAS 33. However, there are a few differences among these standards, due to the differences in environmental factors between these countries. Strict compliance with a standard is very significant to ensure international harmonisation of financial reporting. The author considers that the U.S. has definitely established its superiority in this context through the U.S. Securities and Exchange Commission (SEC). The other regulators of capital markets and the IOSCO may follow the same way. To increase the effectiveness of the disclosure of EPS, the Indian reporting format of Income Statement should be changed in line with the U.S. model.

On the other hand, Damant (2000) reveals a contradictory result. The author notes that most countries are moving towards the IASs. This will lead to one set of standards for the entire world in the near future, except the U.S. GAAP, which will take a longer time to

become harmonised with the IASs. Similarly, Flower (1997) reveals that the likelihood of the SEC accepting the IASs for listing purposes on Wall Street is negligible, after examining the position of the SEC in the context to the IASC-IOSCO agreement. The study also analyses the implications of the proposals of the European Union (EU) to allow large multinational companies (global players) to present their consolidated accounts in accordance with the IASs of the IASC. After analysing the problems confronted by both the EU and global players, Flower (1997) considers the chances of the EU and the IASC reaching agreement. A major problem has been notified in this paper in this regard, that the IASC is dominated by the Anglo-American approach to financial reporting which is basically different from the approach followed by Continental European countries in the EU directives. The author considers here, that a compromise may be achieved if both the EU and the IASC agreed to limit the application of IASs to the consolidated accounts of the global players. However, it must be noted that the EU has decided to adopt the IAS in regard to consolidated accounts for EU listed companies in 2005 (Powling, 2000).

Carlson (1997) suggests that the IASC lacks institutional legitimacy. The author opines that though the output of the IASC has been productive in the last two decades, minimal progress has been made in achieving global uniformity in accounting. The main reason behind the lack of progress towards global uniformity is due to the process adopted to facilitate harmonisation. One of the main concerns about the IASC in regard to the mobilisation process is its institutional legitimacy. The author contends that the mechanism of mobilisation needs to be changed with a view to facilitating the uniformity in reporting practices. However, in the process of restructuring the IASC, the IASC recommended a change in its structure due to the change in

its role from being a harmoniser to being an innovator. This has been done with a view to address the fact that many more countries and organisations would want to participate in the process of standard setting. It has been proposed that the steering committee of the IASC should be replaced by the 'standards development committee,' on which national standard setters will have a major role to play in developing IASs (IASC, 1998). This was approved by the IASC Board in March, 2000 and subsequently by the IASC member bodies in May, 2000 leading to the formation of the IASB. Hence, it can be seen that by restructuring the IASC, the IASC has addressed the issue of institutional legitimacy to some extent.

In the studies outlined above the issue of the harmonisation progress of the IASC has been discussed in general.

Emenyonu and Gray (1996) discuss the issue of the harmonisation progress of the IASC by taking five major countries as a case study. The authors examine the accounting methods used by large listed companies in France, Germany, Japan, the U.K. and the U.S., who are founding members of the IASC. The authors opine here that the efforts to reduce international accounting diversity over the 20 year period from 1971/72 to 1991/92 have been generally modest. The study concludes that in regard to many issues of measurement, it seems clear that the hindrances faced by those promoting international accounting harmonisation, specifically the IASC, continue to be notable even after 20 years of effort.

Some authors have emphasised their belief that the reasons behind the differences in accounting standards between countries arise from environmental factors (Garrido et al., 2002). On the other hand, some authors have argued that the progress of the IASC in regard to the reduction of international accounting diversity has been modest by

taking the case of developed countries, which are founding members of the IASC (Emenyonu and Gray, 1996). These studies recommend further research in context to India, since they suggest that IASC standards are not fully acceptable even to developed countries, which are founding members of the IASC and hence the benefits of IASC standards to developing countries, such as India, is questionable. This has motivated the current research.

2.3 Factors influencing accounting practice

Researchers in this area tried to explain the factors influencing accounting system/ practice, such as culture, institutional structure, and social environment.

Douppnik and Salter (1995) opine that accounting practice is assumed to be the result of a complex interaction among a society's external environment, cultural norms and values, and institutional structures. The authors suggest that the most significant finding of their study is the emergence of two major classes of accounting systems whose country members significantly differ on the basis of their type of legal system. Hence, if the main cause of the differences between these two classes of accounting is the institutional structure, then it might be extremely difficult to achieve comparability of accounting across classes. The authors suggest that, in order to reduce differences between these two classes of accounting system, the immediate relevant task might be to clearly understand the relation between a country's legal system and accounting system. The answer to this and other questions exploring the interrelationship between institutional structure, culture, external environment and accounting might help in understanding and reducing the diversity of accounting throughout the world.

Mathews and Perera (1996) state that notable differences exist between Anglo-American countries and Continental European countries in regard to the patterns of economic development, which can be explained in terms of their cultural environments. In Anglo-American countries there exists a high level of individualism, which has a positive effect on the degree of professionalism and negative effects on the degrees of uniformity, conservatism and secrecy preferred in the accounting subculture. On the other hand, in Continental European countries, specifically in France and Germany, there exists strong uncertainty avoidance in the society that has positive effects on the degrees of uniformity, conservatism and secrecy preferred in the accounting subculture. The authors note that, as the Anglo-American accounting model influences the IASs, these tend to reflect the circumstances and the way of thinking in a particular group of countries. Hence it is probable that the IASs will face problems of relevance in countries where the cultural environments are different from those existing in Anglo-American countries.

Similar to these studies, Gray (1988) proposes a framework for analysing the impact of culture on the development of accounting systems throughout the world. Value dimensions at the level of the accounting subculture have been identified as professionalism, uniformity, conservatism and secrecy. In this context 'professionalism' refers to the independent attitudes of accountants and to the exercise of their individual professional judgement, 'uniformity' refers to a preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time, 'conservatism' refers to a preference for a cautious approach to measurement in order to cope with the uncertainty of future events, and 'secrecy' refers to a preference for confidentiality and the

restriction of disclosure of information of the business only to those who are closely involved with its management and financing. These have been related to cultural value dimensions at the societal level, as suggested by Hofstede (1980), such as individualism, power distance, uncertainty avoidance and masculinity, and hypotheses have been formulated for testing. The author has hypothesised the classification of various countries by cultural area as a basis for examining the relationship between culture and the systems of accounting in regard to the systems of authority and enforcement features on the one hand, and the characteristics of measurement and disclosure on the other. Similarly, Burchell, Clubb, Hopwood, Hughes and Nahapiet (1980) discuss the organisational and social roles of accounting. The authors opine that the development of accounting has led to the acknowledgement of the formal roles of accounting which can be, and are, used to assess the craft of accounting, but their analysis has shown that the actual practice of accounting can be implicated with the persistence of many and very different sets of human and social ends. The authors further note that, once implemented, accounting becomes the phenomenon of organisations and society, there to be used for different ends by a range of actors in an organisation. Hence, these studies emphasise that accounting is intimately related with culture, organisations and society, and accounting is influenced by these elements. Hence, the accounting system should serve the different cultural, organisational and societal requirements.

Some researchers have discussed the issue of the factors influencing an accounting system by taking a case study approach. Harrison and McKinnon (1986) propose a framework for studying corporate reporting regulation and accounting policy formulation at the nation-specific level by taking Japan as a case study. The authors view

the process of corporate reporting regulation as a social system, and an analysis of change has been used to determine the essential properties of such a system. The framework proposed in this study allows examination of the norms and values of the corporate reporting system, the nature of its interdependencies, both internally and with other social systems, the issues to which the system is notably sensitive, and the way in which the form and functioning of the system's elements are influenced by culture. This study examines not only the process of the determination of policy, but also the process of accounting change. The study reveals the way by which culture influences a system of corporate reporting regulation in a specific country, that is, Japan.

Schoenfeld (1981) suggests that the reasons behind the differences in accounting between countries are national differences. Accounting has adjusted to local business and economic requirements throughout history, and hence national differences have created diversity in regard to accounting. Different countries have stressed or ignored specific aspects of certain variables as the base, such as the type of economy and legal system, which have resulted in differences in national systems, making the comparison of financial data almost meaningless.

These studies reveal the reasons behind differences in accounting practices between countries, such as their legal system and cultural environments. Hence, it seems to be essential to observe the underlying factors that might have influenced the ICAI to adjust the IFRSs to suit the local laws, customs, usages and business environment prevailing in India. This study gives an indication as to whether the way of adaptation of IFRSs in India can be explained by these underlying factors. The significance of cultural environments as

underlying causes of differences in accounting practices between countries as revealed by various authors (Mathews and Perera, 1996) also leads to the question of whether the cultural environment of India is similar to that of the cultural environments taken into consideration while formulating the IFRSs. It would be interesting to examine whether these factors are influential in India also.

2.4 Conclusion

The relevance of the IASs to Bahrain was tested by Joshi and Ramadhan (2002) by a questionnaire survey which sought the attitudes of professional accountants of 36 small and closely held companies including manufacturing, merchandising and service sectors. On the other hand, Chamisa (2000) observed 'relevance' by examining the de facto compliance of the annual financial reports of 40 Zimbabwe listed companies belonging to the years 1975, 1980, 1985 and 1990. Chamisa (2000) argues that the ultimate test of relevance of the IASC standards to developing countries (those who are IASC members) is whether or not firms observe IASs. The significance of de facto study has been emphasised in other studies as well (Street et al., 1999). The fact that de jure harmonisation does not necessarily lead to de facto harmonisation has also been noted in various articles (Chen et al., 2002; Taplin et al., 2002). However, it can be considered that de jure harmonisation is the first step towards de facto harmonisation. The significance of de jure harmonisation can be understood from the wide range of literature in this area (Tang and Tse, 1986).

Some studies test the relevance of IASs and/or developed countries' standards to developing countries from a general perspective, by observing the economic pattern, environment and influencing factors of developing countries (Hove, 1986; Perera,

1989). However, limitations regarding generalised conclusions in respect to developing countries have been suggested, as developing countries are an amorphous and heterogeneous group and hence separate country-based studies are required (Chamisa, 2000).

It is significant to note that most of the country-specific studies, specifically regarding India, have examined the de jure harmonisation of the country's accounting standards with IASs in brief and lack detailed analysis (Iyer, 2001; Iyer, 2002; Narayanswamy, 1997). However, a recent study by Ali et al. (2003) examined the de facto aspect by investigating the compliance of annual reports for the year 1998 of a group of companies listed in the largest stock exchanges of India, Bangladesh and Pakistan with disclosure requirements of 15 IASs, which were adopted within these countries that were effective during the end of 1998. This study partially fulfils the dearth of de facto compliance studies of Indian companies' annual reports. The authors conclude that a low level of compliance has been found with accounting for leases and accounting for business combinations, but do not go into an in-depth study of the reasons behind this fact. Ali et al. (2003) also emphasise the dearth of literature in regard to India and Pakistan.

The current research will observe the de jure harmonisation between ASs and IASs. It is interesting to note that both the studies conducted by Narayanswamy (1997) and Iyer (2001) consider other legislation, such as the Companies Act 1956 also, in the process of comparison of the Indian GAAP and the IASs. However, it must be noted that the ASB of the ICAI was formed in 1977 to harmonise the diverse accounting policies and practices of India, and the ASB gives due consideration to the IFRSs in this process. Hence, in order to understand the nature and extent of adaptation of the IFRSs by the

ICAI and hence in the Indian GAAP, comparison of ASs with that of respective IFRSs is required, rather than considering other legislation, such as the Companies Act 1956 Amendment/ Second Amendment Act 2002, since the legislative bodies do not have any project of bringing their requirements in parity with the IFRSs. Hence, the present study will only compare the ASs with that of the IFRSs, and will not consider legislation in this regard, with a view to finding out the approach taken by India when changing its accounting regulation.

Some of the authors have advised the accounting profession to enhance its mechanism of monitoring and enforcing power with a view to ensuring that companies comply with the existing mandatory requirements of the accounting regulations of the country (Ahmed and Nicholls, 1994). However, there is another perspective to this problem: that is, these requirements of the regulation may not be relevant to the accounting environment of the country, resulting in the companies' not following these requirements (Ali et al., 2003). Hence, the current research will provide a detailed study explaining the rationale behind the change in accounting regulation in India.

Finally, influencing factors behind this de jure adaptation/ non-adaptation of the IFRSs by the ICAI will be discussed. Given the significance of India in the world investment market, the Indian accounting system seems to be important at this time. This is due to the accounting system being closely related to the economic system of a country and hence playing an essential part in the world investment market.

This research will contribute to the existing body of literature in regard to country-based studies with a detailed approach, as this study will examine both the de facto and the de jure perspective, while

most of the available literature observes only one of these in studying a specific country.

CHAPTER THREE

FROM HARMONISATION TO CONVERGENCE

3.0 Introduction

This chapter investigates the change of emphasis from harmonisation of accounting standards to setting a single set of high quality accounting standards (convergence of accounting standards), which took place when the IASC was restructured as the IASB, and its probable effects on developing countries. It can be argued that the concerns shown by various authors about the impact of IASC standards on developing countries (Chand, 2001; Mir and Rahman, 2002;) would be more serious, due to this shift in aim of the IASC (now the IASB), as the flexibility of the present IASs will be further reduced in coming years.

According to the Oxford Dictionary (1997), the word 'harmonise' means to "*make or form a pleasing or consistent whole/ bring into or to be in harmony*" (p.683). The dictionary defines 'harmony' as "*agreement, concord*" (Oxford Dictionary, 1997, p.683). One of the objectives of IASC was "*to work generally for the improvement and harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements*" (IASC Constitution, p.103). On the other hand, the dictionary meaning of the word 'converge' is to "*come together as if to meet or join/ tend to meet at a point*" (Oxford Dictionary, 1997, p.313). The aim of the IASB is the convergence of accounting standards, and the Board cooperates with national accounting standard setters in order to achieve this convergence (www.iasb.org). Hence, in accordance with the meaning of the term 'convergence' the IASB tries to frame a narrow set of accounting standards wherein the national standards of respective countries merge at a point, giving rise to a set of high

quality accounting standards, even though it might not be the case that the respective countries agree to these standards voluntarily. Hence, the aim shifted from 'agreement' to 'merging at a point' with the formation of the IASB.

As mentioned in Chapter Two, harmonisation can be divided into two forms, namely, de jure harmonisation and de facto harmonisation.

Garrido et al. (2002) define de jure harmonisation as "*harmonization between regulations*" (p.3) and de facto harmonisation as "*harmonization between practices applied by companies, regardless of whether such practices are affected by regulations*" (p.3). They differentiate between the concepts of harmonisation and standardisation. The dictionary meaning of 'standardise' is "*cause to conform to a standard/ determine the properties by comparison with a standard*" (Oxford Dictionary, 1997, p.1516) and the dictionary meaning of 'standard' is "*an object or quality or measure serving as an example or principle to which others conform or by which the accuracy or quality of others is judged/ the degree of excellence etc. required for a particular purpose*" (Oxford Dictionary, 1997, p.1516). Garrido et al. (2002) state that, "*As is generally accepted, standardisation is supposed to lead to global uniformity, whereas harmonisation refers to a process of increasing comparability and the avoidance of total diversity*" (p.3). The authors conclude in their study that there will be an increase in material harmonisation/ de facto harmonisation as a result of an increase in the level of formal harmonisation.

Tay and Parker (1990) define 'harmonisation' as a process involving a shift from total diversity of practice. The authors' further state that 'harmony' is hence designated by 'clustering' of companies around one or more of the existing methods. On the other hand, the

authors define 'standardisation' as a process of shift towards the state of uniformity. It involves the clustering related to harmony, and reduction in the number of existing methods. Hence, harmony and uniformity are not the same. The former is any point on the scale between the two states of total diversity and uniformity.

Harmonisation has been defined in a similar sense by other authors as well, for example, Nobes and Parker (2000) state that Harmonization is a process of increasing the comparability of accounting practices by setting bounds to their degree of variation. Standardization appears to imply the imposition of a more rigid and narrow set of rules. However, within accounting these two words have almost become technical terms, and one cannot rely upon the normal differences of their meanings (p. 66).

On the other hand, Banerjee (2002b) discussed the concept of 'harmonisation' with the help of three models, mentioned by AlHashim and Arpan (1988), as the absolute uniformity model, the circumstantial model and the purposive model. The absolute uniformity model refers to one set of accounting methods and reports in spite of differences in circumstances and user needs. The circumstantial uniformity model refers to different methods and reports of accounting for different economic facts under varying conditions. Finally, the purposive uniformity model assumes that appropriate accounting methods, standards and reports determine the use of accounting information (AlHashim and Arpan, 1988). Banerjee (2002b) suggests that if the differences in environment between countries, such as differences in political, legal, economic, cultural and social forces are considered, then the best model should be the purposive model. On the other hand, if today's reality is considered, that is, free movement

of capital across national boundaries and hence cross-border listings brought about by globalisation, then at least the multinational firms should follow the absolute uniformity model.

Tay and Parker (1990) describe eight concepts in regard to harmonisation and standardisation, drawn from segment reporting. A regulation (mentioned in a companies act, a national accounting plan or an accounting standard) recommends the disclosure of sales by strictly defined geographical areas. The authors suggest that stricter regulations and/or practices will result in uniformity at a point in time leading ultimately to standardisation over a period of time. Hence, this regulation requiring the disclosure of sales by strictly defined geographical areas will lead to de jure uniformity at a particular time and de jure standardisation over a period of time. Similarly, de facto uniformity and de facto standardisation would prevail if all relevant companies practically disclose sales as required, by firmly defined geographical areas. The authors further state that there can be the existence of uniformity and standardisation with or without simultaneous de jure uniformity and standardisation, as it may be in the interest of all companies to provide such disclosures even if there are no formal regulations.

Mc Leay et al. (1999) state that international 'standardisation' refers to a movement towards global uniformity and 'harmonisation' to a shift towards similarity in the choice between alternative accounting treatments. The authors suggest that the universal application of a uniform method of accounting does not necessarily increase comparability. Rather, it is the availability of alternative treatments of accounting and the use by various firms of the proper method that produces comparable financial statements. Hence, worldwide harmonisation of accounting should be seen as a

situation in which firms throughout the world are able to use an internationally-recognised accounting treatment that is right to their circumstances without being hindered to do otherwise by local accounting regulations or other requirements to adopt practices restrained to particular nations. On the other hand, Rahman et al. (1996) conclude that it is well recognised that the main factor driving material harmonisation is formal harmonisation.

3.1 The change of emphasis from harmonisation to convergence

The IASC was formed in June 1973 as a consequence of an agreement by accounting bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the U.K., Ireland and the U.S.A. In 1977 the international professional activities of the accountancy bodies were organised under the IFAC. In 1981, the IASC and IFAC agreed that the IASC would have full and complete autonomy in the setting of international accounting standards and in regard to the issue of discussion documents on international accounting matters. At the same time, all IFAC members became members of the IASC. This association continued until the IASC's constitution was changed in May 2000 as part of the reorganisation of the IASC, when this tie of membership was discontinued (www.iasb.org).

The IASC reviewed its structure and plans in 1994 and from then its main aim was on a work programme, agreed with the IOSCO, to finish the formulation of a complete set of core standards by 1999, which would be appropriate for cross-border capital raising and listing purposes in all global markets. The set of core standards was developed in proper time and in the year 2000, the IOSCO

recommended its members to allow multinational issuers to use 30 IASC standards for cross-border offerings and listings (www.iasb.org). At present the IOSCO has 105 ordinary members, 9 associate members and 58 affiliate members (www.iosco.org). In its early years, the role of the IASC was as a harmoniser, a body that picks up an accounting treatment that already exists at the national level in some countries and then seeks worldwide acceptance of that treatment, probably with some modifications.

In 1997, the IASC Board formed a Strategy Working Party (SWP) to consider the future strategy and structure of the IASC after it completed the work programme in regard to the 'core standards,' and a discussion Paper, 'Shaping IASC for the future' has been approved by the SWP, to stimulate and focus discussion. As a result, the IASB was formed, and came into operation in March 2001. The aim of the IASB is global uniformity, that is, framing a single set of high-quality accounting standards for all listed and other economically significant business enterprises throughout the world (www.iasb.org). As stated in the press release, 25 January 2001, the new Board of experienced accounting professionals will have the responsibility of working towards a single set of high quality accounting standards that can be broadly supported by national bodies throughout the world (IASC, 2001).

In the same press release the IASC states that the beneficiaries of this convergence towards a single set of high quality internationally accepted accounting standards are auditors, users, preparers and regulators of financial information and statements. The IASC further states that the availability of common and more reliable financial data should assist in international investment and decrease the cost of capital throughout the world. The costs of accounting for

multinational firms operating in different parts of the world will reduce with the narrowing and ultimate elimination of national differences. Regulators will also benefit from the greater consistency and quality of information.

3.2 Arguments in favour of harmonisation and/ or convergence

The arguments in favour of, and against, harmonisation and /or convergence are of two types: some studies take a case study approach, that is, by taking a country, or a group of countries as a case study, and on the other hand, others have explored the issue from a broad viewpoint.

The benefits of harmonisation as revealed in various studies can be explained as follows:

Harmonisation will make the life of investors and financial analysts throughout the world much easier. This is due to the fact that IASs will improve the pricing of capital, which will be reflected in the prices of shares on the world's major equity markets. However, differences in culture and economy between the various countries will still demand a high degree of international expertise in this regard (Damant, 2000). On the contrary, Aitken and Islam (1984) argue that the environmental conditions in a particular country, such as the relative stability of the currency of account, stage of economic development, type of economy involved and the growing pattern of an economy, influence the financial affairs of firms. If the currency of account is unstable this may lead to a problem of numerical approximation while constructing a 'consumer price index,' and does not at all constitute a barrier to fundamental rules of accounting. Similarly, the economies of India and Indonesia are less developed than the U.S. This does not suggest that the rules of measurement for

assets, liabilities, or any other element of financial statements pertinent to Indian and Indonesian companies should be diverse from those of an American company. Hence, methods of evaluating the financial performance and position will themselves reflect the relevant influences of the environment on the business firm, on their own. There is no reason for disputing international accounting standards.

Banerjee (2002b) suggests that the dearth of a common set of GAAP affects the quality and comparability of accounting information and leads to high cost of capital, and an incompetent allotment of resources between the sectors of an economy and different countries of the world. Similarly, Ramcharran (2000) suggests that the fast integration of the emerging markets of Latin America, Asia and the changing economies of Eastern Europe and Russia into the international capital markets further supports the requirement for the harmonisation of financial reporting.

In the same vein, Warrell (1999) reveals the disadvantages of the current system of different standards in different countries. These are the high cost of preparation of financial information for international operators, such as, if companies like to access the highly liquid public markets in the U.S., complete disclosure including a quantitative reconciliation of net income and material balance sheet amounts to U.S. GAAP is required. Secondly, the right to enter the capital market is obstructed because of the lack of comparability between reports resulting from the dearth in understanding of foreign reports by lenders and investors. This is likely to increase the cost of funds.

Archer, Delvaille and Mc Leay (1995) state that the benefits of adopting internationally recognised accounting standards will exceed the cost, and suggest that the main vehicle to facilitate the process of

harmonisation would be IASs and the US GAAP. Similarly, Saudagaran and Diga (1997) support the adoption of IASC standards and reveal the reasons behind the promotion of the global view of accounting harmonisation and hence the adoption of IASC standards by the majority of professional accounting bodies of the ASEAN. These are: the lack of research resources required and hence the low cost of adopting these standards, the flexibility of the IASC standards and hence the ease of implementation, the neutrality of IASC standards as they are acceptable internationally rather than in just one country and the confidence of foreign investors in IASC standards and hence their ability to attract foreign investments.

Arguments in favour of harmonisation can be summarised as follows:

- 1) The current differences regarding accounting standards and/or practices between countries result in a high cost of preparation of financial information for international operators.
- 2) ASEAN countries are adopting IASC standards, as the cost of adopting these standards is low and IASs are easy to implement since these standards are flexible.
- 3) IASC standards are acceptable internationally and the confidence of foreign investors in IASC standards helps in attracting foreign investments.
- 4) The financial affairs of firms are influenced by the environmental conditions in a particular country. Hence, methods of evaluating the financial performance and position on their own will reflect the relevant influence of the environment on business firms. On the other hand, both national and international companies have interests in common, namely, solvency and profitability. This leads to the possibility of designing a report for interested parties, such as shareholders,

managers and creditors to include the same elements of financial statements, such as assets, liabilities, ownership and equity. Hence, there can be no causes of differences in measurement methods between countries. However, differences in regard to the nature of disclosure requirements of information to the public may exist between publicly owned and privately owned business organisations, but not the nature of such information.

3.3 Arguments against harmonisation and/ or convergence

There has been some concern shown by various authors regarding the IASC, as given below:

Garrido et al. (2002) conclude that the fulfilment of the ambition of the IASC to become the international standard-setter depends on the level of success it has achieved, so far, in its efforts of harmonisation through the issuance of the IAS. They suggest that IASC should work towards accomplishing greater formal harmonisation.

Flower (1997) states that it is claimed that the secret agenda of the IASC was to issue standards that reflected Anglo-American practice, which the U.K. (and like minded countries) could use as a tool to prevent the E.U. from imposing accounting rules that conflicted with British practice. However, the shift of the aim of the IASC (now the IASB) from harmonising accounting standards to the formulation of a single set of high quality accounting standards is noteworthy. There is a wide range of articles, revealing the partisan attitude of the IASC towards developed countries (Chamisa, 2000; Chand, 2001) and its domination by the Anglo-American lobby, which forms a solid block of five votes within the members from industrialised countries, namely, Australia, Canada, South Africa, the

UK and the USA (Chand, 2001; Flower, 1997). The advantages behind adopting IFRSs in developing countries have also been questioned in some studies (Larson and Kenny, 1995; Hove, 1989). It is worth mentioning in this context that the representation of developing countries on the IASB is still insignificant compared to developed countries. This is important to note, as representation helps in the enhancement of bargaining power (Craig and Diga, 1996).

A serious concern shown in the discussion paper 'Shaping IASC for the future' (IASC, December, 1998) is the limitation of the resources of the IASC to meet the needs of developing countries and of countries in East and Central Europe and in Asia that are in the stage of changeover from centrally planned economies to market driven economies. The same concern has been shown in the funding model of the report that the developing countries are not likely to have the resources to pay a full contribution towards the cost of the IASC. Hence, it is expected that the representation of developing countries in comparison to developed countries will also be minimal in future years, due to the scarcity of resources of these countries. Likewise, it can be stated that though the past funding model of the IASC was subject to criticisms due to the fact that the direct and indirect cost of seats on the Board used to discourage developing and emerging countries from applying to join the Board, the present funding model also suffers from the same limitation. It is noteworthy that at present, none of the 14 Board members of the IASB represents any developing country (www.iasb.org). Hence, developing countries should carefully adapt/adopt the standards pronounced/ to be pronounced by the IASB, as they are not represented on the board. This is of utmost importance at present and will also be significant in the future, as it is expected that the allowed alternative treatments of a particular accounting

standard/s will be further reduced in the near future, and hence the developing countries should carefully examine whether those new/amended standards suit their requirements.

Some authors have cited arguments against the concept of harmonisation and/or convergence, not specifically against the IASC (now IASB), which are as follows:

Nobes (1998) suggests that the principal reason behind international differences in financial reporting is the difference in regard to the purpose for that reporting. Here the author highlights the distinctions between three types of financing system as suggested by Zysman (1983) as capital market based, credit-based: governmental and credit-based: financial institutions.

The capital market based financial system allocates resources by competitively established prices. The market arrangement under this financial system limits the influence of financial institutions on non-financial firms and the influence of governments on the particulars of the lending activities of banks. This system was prevalent in Britain and the U.S. The credit-based financial system that allocates resources in accordance with government administered prices is known as governmental credit-based system. This system facilitates and encourages the intervention of the government in industrial affairs. This financial system was prevalent in France where the financial system was concentrated in the hands of the central executive. Finally, there is a credit-based system dominated by financial institutions without themselves being dependent on state assistance, such as that existed in Germany (Zysman, 1983).

Nobes (1998) warns against inappropriate transfers of technology and hence, points to some implications for rule-makers.

Nobes (1998) establishes his viewpoint by linking the six institutional factors, namely, tax, level of education, level of economic development, legal systems, inflation levels and culture causing international differences of accounting systems, and by classifying the financial reporting systems into two classes, such as Class A, which corresponds to Anglo Saxon accounting and Class B to Continental European accounting.

Choi (1981) suggests that differences in accounting environments lead to differences in accounting responses with a view to protecting the social usefulness of accounting reports. By giving the example of IASC standard No.3, the study reveals that accounting standards issued by the IASC may not be always applicable to the ASEAN environment. The author suggests that, in spite of international efforts, a regional approach to the harmonisation of accounting has a significant role to play in the total programme of global accounting standards. Hence, this study also takes a group of country approach to accounting, similar as that of Nobes (1998).

The applicability of the Western and/or Anglo-American style of accounting to developing countries has been questioned by several authors, for example, Perera (1989) suggests that the Anglo-American style of accounting practices may be irrelevant to many developing countries, as accounting is the product of its environment, and a specific environment is unique to its time and locality. Secondly, this style of accounting may not be able to supply the accounting information requirements of developing countries in the most efficient way, since the economic advancement of developing countries in modern times will not follow the route taken by the Western capitalist countries. There can also be some differences in the concept of 'true and fair view' between the Anglo-American countries and developing

countries. However, Perera (1989) favours uniformity in the accounting system of developing countries. Similarly, the study done by Baydoun and Willett (1995) support uniformity of accounting systems between countries partially, by stating that the fundamental recording systems of Western countries upon which most accounting information is based may be relevant to developing countries. However, their disclosure rules are irrelevant to developing nations.

Similarly, Briston (1978) by taking the case of the spread of Western accounting to developing countries, suggest that every country has its own political, social, economic, and cultural features, and it is usually expected that the goals together with the information requirements of the managers of an economy will vary from one another. Hence, each country should be encouraged to create an appropriate system, which will cater to its own needs, instead of standardising the structure and specifications of its information system. The author states that the worldwide trend is in the opposite direction. This attempt to standardise international private sector financial reporting by several bodies such as the IASC, the United Nations, and the Organization for Economic Cooperation and Development (OECD) is widening the gap between accountants and economists, which will hinder the development of a satisfactory information system for national economic planning and control. Gray and Roberts (1991) also suggest that with the increasing harmonisation of the EC and increasingly more uniform standards suggested by the IASC, there seems to be a rising agreement on the correctness of the Western oriented system, with its focus towards investor protection and profit maximisation. However, it seems that Western accounting systems will require to be adapted for Eastern

accounting purposes given the significant dissimilarity in culture and specific political and social requirements involved.

Hove (1986) reports on the imposition of the accounting system of developed countries on developing countries by powerful foreign investors or extended from the home to host countries through the influence of transnational corporations, foreign aid and professional accountancy institutes of developed countries. Accounting information prepared on the basis of such systems is irrelevant and useless for the decision models of governments of LDCs, for example in the case of the failure of the system to report some practices of transnational corporations, the consequences can be devastating. The study suggests that this problem cannot be solved by the standardisation of accounting practice internationally. Only the nationals of LDCs themselves, by means of finding ways to rectify the situation, can solve it.

Likewise, Wallace (1990) questions the issue of the application of the IASC standards to developing countries, by stating that the body is dominated by developed countries, and the IASC is more likely to conform to the requirements of the funding population, who are Board members, rather than to the wishes of the beneficiary population, such as transnational enterprises, stock exchanges, and the national accounting regulatory bodies of the Third World. This concern still prevails at present, as none of the 14 Board members of the IASB represent developing countries (www.iasb.org).

Hamid, Craig and Clarke (1993) have argued against harmonisation by taking a religion and its practices as a case study. The authors suggest that the prohibition of charging interest in Islam is an element of culture, which brings about complexity to accounting harmonisation in Western terms. Prohibition of interest abolishes many

conventional Western discount-calculation-based procedures of accounting and financial calculations, some of which are prescribed in compulsory accounting standards. The authors opine that compliance with the traditions of Islam go beyond national boundaries. The probable influence of Islam on the policies and practices of accounting could explain the national accounting difference with a cultural dimension more profound than that originating from the influence of indigenous secular wars or general custom and commercial habit. Hence, their study reveals that religion in general, and specifically Islam, has the potential to extend a profound cultural influence in regard to the mission of international harmonisation of accounting.

The influence of environmental factors on accounting has been argued as a case against harmonisation and/or convergence by some authors; for example, Nair and Frank (1980) suggest that the groupings obtained from accounting practices are influenced by environmental variables. Hence, this may lead to countries being reluctant to make a change in accounting practices so long as the underlying variables are notably different, making the goal of harmonisation difficult to achieve. Under this scenario the issuance of authoritative standards by policy-making bodies may be a less successful force for harmonisation of accounting practices than is the growing commonality of worldwide economic interests. Similarly, McComb (1978) stresses on giving more attention to achieving an understanding of the causes for the continuing existence of national differences in accounting principles and practices which is of utmost importance, as a phase of the process of the internationalisation of accounting has been already entered. The author suggests that attention should be given to investigation, analysis and education

rather than to making the process of promulgating further international accounting standards rapid.

Some authors have analysed the issue of the relevance of harmonisation and/or standardisation of accounting standards from a general viewpoint, putting emphasis on the interests of stakeholders; for example, Goeltz (1991) suggests that- the market does not simply admit reported earnings. Security analysts, portfolio managers and investors examine footnotes and other supplementary disclosures to understand the differences in accounting while comparing the performance of and prospects for companies. Also, investors are rational and will spend the required time and money to analyse different opportunities for investment correctly. The author further notes that the global capital market expanded from 1984 to 1989 in spite of the non-availability of a global GAAP. This suggests that- there is no requirement for a global GAAP. Similarly, Choi and Levich (1991) suggest that one-half of their survey participants, who are institutional investors, corporate issuers, investment underwriters and market regulators from various countries, feel that they have efficient ways of handling the diversity in regard to international accounting. However, this study supports harmonisation and/or standardisation, on the other hand, by revealing that another half of their respondents feel that capital market decisions are influenced by the diversity in international accounting. Hence, the diversity in regard to international accounting may be a barrier that affects the pricing of securities and the compositions of international portfolios.

Roberts (1995) establishes the argument against harmonisation by referring to previous academic works by various authors, such as Nobes (1984), who have classified accounting systems internationally. The author asks the question whether the idea of classification itself

hinders the notion that accounting internationally is a faultless web which we risk fracturing our understanding of, if we categorise.

The arguments against harmonisation and/or convergence can be summarised as follows:

- 1) Difference in the purpose of financial reporting, depending on the type of financial system, such as (a) capital market-based, in which case prices are set up in competitive markets, (b) credit-based system: governmental, where resources are managed by the government, and (c) credit-based system: financial institutions, where banks and other financial institutions are dominant.
- 2) Different accounting environments ought to bring about variation in accounting responses with a view to preserving the social usefulness of accounting reports. Accounting practices are influenced by environmental variables. Hence, countries may be reluctant to make a change in the practices of accounting as long as the underlying variables are significantly different, making the goal of harmonisation difficult to achieve.
- 3) The Anglo-American style of accounting practices may not be relevant to developing countries as the economic advancement of developing countries of modern times will not follow the route taken by Western capitalistic countries.
- 4) The information requirements of the managers of an economy will vary from one another due to the differences in their political, social, economic and cultural features.
- 5) The imposition of the accounting system of developed countries on developing countries through the influence of transnational corporations, foreign aid, and professional accountancy institutes is irrelevant to LDCs as this accounting system does not serve the decision models of governments of LDCs. Hence, as the IASC is more

likely to conform to the requirements of the funding population, who are Board members and belong to developed countries, rather than to the wishes of the beneficiary population, IASC standards are not applicable to developing countries.

6) Religion is another hindrance to harmonisation, such as Islam prohibiting the charging of interest, which brings about complexity to accounting harmonisation in terms of Western countries.

7) There is no need for harmonisation of accounting standards throughout the world, as various interested groups in financial markets, such as security analysts, portfolio managers and investors take the footnotes and other disclosures into account with a view to understanding the differences in accounting while comparing the performance of and prospects for companies. Also there are sufficient other ways of dealing with the differences in international accounting.

3.4 Conclusion

It can be concluded from this discussion that the main reasons cited by various authors against harmonisation and/or convergence are mainly environmental differences and institutional factors. Following this is a wide range of literature questioning the issue of the relevance of Western accounting and accounting standards and/or practices of developed countries to developing countries. However, some authors have addressed the issue by referring to previous literature encompassing the classification of accounting systems. On the other hand, authors have referred to economic reasons, and environmental factors, to argue in favour of harmonisation and/or convergence.

It can be stated that there are some advantages as well as disadvantages in adopting internationally recognised accounting

standards, and hence a well thought out decision should be made before adopting them. Alternatively, developing countries could get together and develop standards, rather than adopting IASs (Chand, 2001), or these countries should develop various interest groups, with a view to directing the preparation of financial reports (Mir and Rahman, 2002).

CHAPTER FOUR

INDIA- COUNTRY PROFILE

4.0 Introduction

This chapter explains the country profile of India. An appreciation of the country profile of India is relevant in understanding the rationale behind the changes in accounting regulation in India, as accounting institutions and practices should be related to their respective environments (Gernon and Wallace, 1995). Hence, an explanation of the various environments of India seems to be of considerable value as the accounting ecology of a country is constituted by these various environments.

Gernon and Wallace (1995) define 'national ecology' as "*a multidimensional system in which no one factor occupies a predominant position and in which the perceptions held by actors on some unfolding accounting phenomena, as well as the accounting phenomena themselves, are the objects of study and analysis*" (p.59). The authors especially emphasise the relationships of environmental factors, which influence and are influenced by accounting, and the importance of perceptual as well as non-cultural factors, namely population and land area.

The authors discuss five separate but interacting slices of the environment, which together constitute the accounting ecology. These five slices are as follows:

- 1) Societal Slice (Environment)
- 2) Organisational Slice (Environment)
- 3) Professional Slice (Environment)
- 4) Individual Slice (Environment)
- 5) Accounting Slice (Environment)

This chapter discusses the accounting ecology of India using the model suggested by Gernon and Wallace (1995). This model seems to be appropriate to the present study, as the model consists of cultural as well as non-cultural factors and the five different environments/slices explained in this model will help in a detailed explanation of the country profile of India. This model will also appropriately help in explaining the relationship between each environment and its influences on accounting in India.

4.1 Societal Environment

The societal environment is composed of both cultural and two non-cultural elements namely, demographic and structural. In this context, demographic variables include the size of a country's population, area of land and geographical location. Structural variables refer to and include development in the context of technology, economy, and political development (Gernon and Wallace, 1995).

'Culture' can be defined as "*the collective programming of the mind which distinguishes the members of one human group from another*" (Hofstede, 1980, p.25). On the other hand, 'Value' refers to "*a broad tendency to prefer certain states of affairs over others.*" (Hofstede, 1980, p.19). At the collective level, as opposed to the individual level, values represent culture, and hence culture describes a system of societal or collectively held values (Gray, 1988). Culture influences (1) the values and norms of social systems; and (2) the behaviour of groups in their interactions across and within systems (Harrison and McKinnon, 1986).

The concept of culture as a variable in regard to an organisation refers to something like strategy and systems, which management can and should influence to further the ends of the organisation. The

concept of culture as a symbol refers to the fact that management is also a part of the culture of an organisation. With the help of interaction, culture outlines management as management outlines culture (Dent and Green, 1985; Smircich, 1983 cited in Mathews and Perera, 1996).

Hofstede (1980, 1984) has developed four value dimensions in regard to national cultures. In a further study by Hofstede (1991) survey questionnaires were administered to IBM employees in similar positions but different countries, and then the scores and ranks of 50 countries and 3 multi-country regions for each of these value dimensions were computed. These cultural value dimensions can be explained as follows:

The cultural value dimensions of Indian society

(i) Large versus small Power Distance

‘Power distance’ refers to the extent to which the members of a society accept that power in institutions and organisations is distributed unequally. In large power distance societies, societies accept a hierarchical order in which everybody has a place, which requires no further justification. In small power distance societies, people make every effort for equalisation of power and demand justification for power inequalities (Gray, 1988)

The scores and ranks of some countries, as given by Hofstede (1991) in regard to power distance are as follows:

Table 1: Power Distance index (PDI) values

Score rank	Country or region	PDI score
1	Malaysia	104
2/3	Guatemala	95
2/3	Panama	95
10/11	India	77

10/11	West Africa	77
15/16	France	68
15/16	Hong Kong	68
38	USA	40
41	Australia	36
42/44	Great Britain	35
50	New Zealand	22

Source: Hofstede (1991)

High power distance has been observed for Latin countries (both Latin European, such as France and Spain, and Latin American), and for Asian and African countries, lower values for the USA, Great Britain and its former dominions and for the rest of non-Latin part of Europe. However, it must be noted that Eastern European countries are not in the data set except Yugoslavia, (rank 12, PDI Score 76) which scores high on the PDI (Hofstede, 1991). The position of India in regard to power distance is high.

Note:

Countries with a score of more than 60 in a particular cultural value dimension have been considered to be the countries having a high position in that cultural value for the purpose of interpreting the position of India for the present research, while those countries with a score in between 50 to 60 have been considered to have medium, and countries having a score of less than 50 have been considered to have low positions in that particular cultural value.

(ii) Individualism versus Collectivism

'Individualism' refers to a preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves and their immediate families only. On the other hand, 'collectivism' refers to a preference for a tightly knit social framework

in which individuals can expect their relatives, clan or other in-group to look after them in exchange for unquestioning loyalty. The main issue in this regard is the degree of interdependence a society maintains among individuals (Gray, 1988).

Table 2: Individualism index (IDV) values

Score rank	Country or region	IDV Score
1	USA	91
2	Australia	90
3	Great Britain	89
6	New Zealand	79
10/11	France	71
21	India	48
36	Malaysia	26
37	Hong Kong	25
39/41	West Africa	20
51	Panama	11
53	Guatemala	6

Source: Hofstede (1991)

It can be stated, by having a look at the ranks and scores of respective countries, that nearly all wealthy countries score high on IDV while nearly all poor countries score low (Hofstede, 1991). The position of India in regard to 'individualism' is low.

(iii) Masculinity versus femininity

'Masculinity' refers to a preference in society for achievement, heroism, assertiveness, and material success. On the other hand, 'femininity' refers to a preference for relationships, modesty, caring for the weak and the quality of life. The key issue in this regard is the way in which a society allocates social roles to sexes (Gray, 1988).

Table 3: Masculinity index (MAS) values

Score rank	Country or region	MAS Score
9/10	Great Britain	66
15	USA	62
16	Australia	61
17	New Zealand	58
18/19	Hong Kong	57
20/21	India	56
25/26	Malaysia	50
30/31	West Africa	46
34	Panama	44
35/36	France	43
43	Guatemala	37

Source: Hofstede (1991)

The most masculine country is Japan (rank 1, MAS Score 95), ranking first followed by some continental European countries, such as Austria (Rank 2, MAS Score 79), Italy (Rank 4/5, MAS Score 70) Switzerland (Rank 4/5, MAS Score 70) and West Germany (Rank 9/10, MAS Score 66), together with some Latin American countries.

Moderately masculine countries are all Anglo countries, such as the Republic of Ireland (Rank 7/8, MAS Score 68), Jamaica (Rank 7/8, MAS Score 68), Australia and New Zealand, together with Philippines (Rank 11/12, MAS Score 64), Greece (Rank 18/19, MAS Score 57), Hong Kong, India, Belgium (Rank 22, MAS Score 54) and the Arab-speaking countries (Hofstede, 1991). The position of India in regard to 'masculinity' is moderate.

(iv) Strong versus Weak uncertainty avoidance

'Uncertainty avoidance' refers to the degree to which the members of a society feel uncomfortable with uncertainty and

ambiguity. The principal issue in this regard is the way a society reacts to the fact that time runs only one way and that the future is unknown, that is, whether it tries to control the future or just lets it happen (Gray, 1988).

Table 4: Uncertainty avoidance index (UAI) values

Score rank	Country or region	UAI Score
3	Guatemala	101
10/15	France	86
10/15	Panama	86
34	West Africa	54
37	Australia	51
39/40	New Zealand	49
43	USA	46
45	India	40
46	Malaysia	36
47/48	Great Britain	35
49/50	Hong Kong	29

Source: Hofstede (1991)

In regard to uncertainty avoidance, high scores have been observed for Latin American, Latin European, and Mediterranean countries. Japan (Rank 7, UAI Score 92) and South Korea (Rank 16/17, UAI Score 85) also score high in this regard. Medium high scores have been observed for German-speaking countries, such as Austria (Rank 24/25, UAI Score 70), Germany (Federal Republic) (Rank 29, UAI Score 65) and Switzerland (Rank 33, UAI Score 58). All Asian countries other than Japan and Korea (from 69 for Taiwan to 8 for Singapore) score medium to low (Hofstede, 1991). India ranks low in regard to 'uncertainty avoidance.'

The last dimension was added later on, which is known as the Confucian long-term Orientation (LTO). This is related to man's search for truth. Both the Indian and Chinese minds take a different position from the Western one when it comes to the need for defining 'truth'. Practically, this dimension refers to a long-term versus a short-term orientation in life.

The teachings of Confucius are lessons in practical ethics without any content of religion. The principles of Confucian teaching are that the unequal relationships between people establish the stability of society; the family is the model of all social organisations; virtuous behaviour towards others consists of not treating others as one would not like to be treated oneself; virtue in relation to one's task in life consists of trying to acquire skills and education; working hard; not spending more than necessary; being patient; being persistent (Hofstede, 1991).

This cultural value dimension was examined by discriminating among the answers of students from 23 countries (Hofstede, 1991).

The scores of some of the countries on Long-term orientation (LTO) can be listed as follows:

Score rank	Country or region	LTO Score
1	China	118
2	Hong Kong	96
3	Taiwan	87
4	Japan	80
5	South Korea	75
7	India	61
15	Australia	31
16	New Zealand	30
17	USA	29

18	Great Britain	25
23	Pakistan	00

Source: Hofstede (1991)

The top five positions are taken by East Asian countries: China, Hong Kong, Taiwan, Japan and South Korea. Singapore ranks ninth (LTO Score 48).

Linking societal values to accounting values

After the identification of cultural values by Hofstede (1980), Gray (1988) linked them with significant accounting values. This can be explained as follows:

'Professionalism' versus 'statutory control'

This dimension relates to a preference for the application of individual professional judgement and the maintenance of professional self-regulation instead of compliance with strict legal requirements and statutory control.

'Uniformity' versus 'flexibility'

This dimension relates to a preference for the imposition of uniform accounting practices between companies and for consistent use of such practices over time instead of flexibility in accordance with the perceived circumstances of individual companies.

'Conservatism' versus 'optimism'

This dimension relates to a preference for a cautious approach to measurement with a view to coping with the uncertainty of future events as opposed to a more optimistic, laissez-faire and risk-taking approach.

'Secrecy' versus 'transparency'

This dimension relates to a preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as

opposed to a more transparent, open and publicly accountable approach.

In the context of relating cultural values with accounting sub-cultural values, the relationship proposed by Gray (1988) can be explained by the table below:

Table 5: Relationship between Gray's accounting dimensions and Hofstede's cultural dimensions

Cultural Values (Hofstede)	Accounting Values (Gray)			
	Professionalism	Uniformity	Conservatism	Secrecy
Power distance	-	+	?	+
Uncertainty avoidance	-	+	+	+
Individualism	+	-	-	-
Masculinity	?	?	-	-

Source: Baydoun, N. and Willett, R. (1995)

In the above table '+' refers to a positive relationship between the relevant variables, and '-' refers to a negative relationship. Question marks refer to the fact that the relationship is indeterminate.

The cultural environment of India

Different aspects of Indian culture can be explained as follows:

Large versus small power distance

The power distance among people in India exists in the form of hierarchy in organisations and society. This has led to the separateness, authoritarianism and status-consciousness of people, instead of a relationship of bonding among them.

In India six basic relationships in terms of hierarchy are: ruler/subject, father/son, older brother/younger brother,

husband/wife, older friend/younger friend and teacher/student. In regard to the elder brother/younger brother and father/son relationship, the eldest brother supports his younger brothers and in turn expects respect from younger brothers. Similarly, the father expects respect from his sons. However, there seems to be a selfless dedication still visible in elder brothers for their younger brothers, sisters and their widowed mother, as elder brothers feel morally and emotionally accountable to them. Hierarchy in Indian culture is not oriented by rights but by duty (Chakraborty, 1991).

It must be noted that hierarchism is functional for resolving conflicts. This is used as a tool by most Indian parents to resolve conflicts between their sons. Also hierarchism-by-age can moderate the ill effects of hierarchism-by-organisational status (Chakraborty, 1991).

In India democratic pressures are on the rise together with the rise of the nation-state, at the same time. Even as ordinary people start to participate in the political process in large numbers, as more and more backward groups and poor women enter the panchayats (Head of village administration) and parliament and other representative bodies, the clout of those institutions is decreasing. It is a great achievement that these backward groups can grasp the levers of power, but these new entrants are finding that the levers actually have no power. This is due to the fact that the policies they hoped to change are not in their hands, but the nation-state has ceded those areas of decision making to the WTO, the IMF, the World Bank and last but not the least, the market (Thapar, 2001).

In India, at the country-level, policy is shaped less and less by representatives of the people, and more and more by technocrats and corporate bosses, Indian as well as foreign. This can be seen by

having a look at the members of the many committees around the prime minister and the finance minister. These high cabals overrule decisions coming from ground-level bodies. Hence, for every democratic impulse from below, there is someone at the top who challenges it (Thapar, 2001).

Elites are even scared by the partial and often imperfect democratisation at the panchayat level. So a parallel process of decision-making exists, which lessens the effect of the participation of people in these bodies and sidelines them on larger issues and in policy making. In some parts of the country, district administrations often act as little more than the executive committee of a powerful corporate coming into the area, or they act at the command of a group of social elites (Thapar, 2001).

Hence, in India achievement is destabilised by inequality, while independent India's major achievements have been in maintaining and extending democracy, the benefits of which are now under criticism (Thapar, 2001).

In the early 1990s, about 300 Members of the Parliament (MPs) were against throwing away the Indian Patents Act and signed a public statement saying so. Most of these people did the same thing, which they opposed, in spite of serious personal opposition. This is due to the fact that larger forces are controlling them (Thapar, 2001).

Around 1997, the government of Madhya Pradesh (a state of India) faced severe consequences when it tried to enforce an old law. It sought to make sure that medical graduates served two years in villages before getting their degrees. A huge opposition from the children of the rich forced the government to cut that down to one year (Thapar, 2001). This reflects the inequalities between the poor and the rich in India.

Nowadays, in Indian organisations and institutions the idealism of hierarchy, that is, keeping the attitude of equality in mind or non-duality towards all, but refraining from showing this mental frame in dealing externally irrespective of time, place and circumstance, is missing and hence this is leading to larger power distance (Chakraborty, 1991).

Historically, three main socio-economic forces framed work organisations in India, namely, the traditional caste system, British colonisation and post-independence socialism (Sinha, 1990; Virmani and Guptan, 1991 cited in Amba-Rao, Petrick, Gupta, and Von der Embse, 2000). Originally the caste system comprised occupational groups interdependent of each other, which later evolved into a stratified, hierarchical socio-economic class system. The colonisation by the British resulted in administrative bureaucratisation and polarisation of manager and non-manager groups. After independence, the business community was influenced by development goals with socialistic ideology (Amba-Rao et al., 2000).

The Indian management cultural profile includes possessiveness towards subordinates (Kakar, 1971; Sharma, 1984 cited in Amba-Rao et al., 2000). In Indian work organisations the power distance is high, which reflects the traditional Indian social respect for paternalistic, hierarchic authority by age, caste, family status and gender (Amba-Rao et al., 2000).

Individualism versus Collectivism

It is important to understand Hinduism in understanding the Indian culture, and hence the concept of collectivism in India. The importance of affection reciprocity in India is replicated in the concept of the collective ego of Hinduism (Shils, 1961, cited in Patel, Harrison

and McKinnon, 2002). The concept of an individual as a separate person with the choice to take decisions about what is ethical and what is not is generally absent among Indians. Rather, an individual is perceived to be a part of a collective, which decides those behaviours that are acceptable (Triandis, 1994, cited in Patel et al., 2002). People are more concerned about acting appropriately rather than as they consider right or wrong (Triandis, 1995, cited in Patel et al., 2002). Hence, judgements in relation to what is ethical or unethical are dependent on the people and the context concerned, with issues of family, friendship, caste, reputation and preservation of harmony being of greater significance (Trompenaars, 1993, cited in Patel et al., 2002).

India is a place where people of various races, religions, languages and beliefs live together peacefully. One of the reasons behind this is the underlying fact that the culture of India is unified in many respects (Kalman, 1993). This gives the sense of collectivism in Indian culture.

In work organisations, Indians also show a medium collectivist orientation influenced by extended family, caste, religious and linguistic affiliations resulting in in-group and out-group relationship orientations (Amba-Rao et al., 2000).

Masculinity versus femininity

Indian work organisations are characterised by medium masculinity, which is reflected in moderate levels of assertiveness, interest in acquiring money and things, relative to affiliation and social relationships (Amba-Rao et al., 2000).

The characteristics of Indian workers as perceived by the managers and supervisory personnel in general of 28 organisations

studied, are that they are docile, dependent, money-minded, needing encouragement and needing persuasion (Sinha, 2000). In India job security is also given a high priority by employees over other types of rewards (Gopalan and Rivera, 1997). Hence, by analysing these features of Indian workers it can be seen that they possess the masculine value of preference for making money and enjoying material success. On the other hand, the value of dependency and quietness are opposite to the societal preference for heroism and assertiveness, which are not the characteristics of masculinity.

Strong versus weak uncertainty avoidance

India is a large country with over one billion people, the second highest population in the world. People of different religions, like Hindu, Muslim and Christian, live together in peace and harmony. Indians try to accept the differences among their several groups with a view to living together in peace. The People of India are tolerant of one another as their bonds are stronger than their differences (Kalman, 1990). The existence of a large and diverse population proves that people are less concerned about their uncertainty as they are quiet about the ever- growing population and diversified people.

It is significant to note that over 80% of Indians are Hindus. Hindus believe that they will be reborn after their death. However, Hindus try to attain 'moksha' (which refers to freedom from this recycle of birth and death) and hence try to lead a good life. This might be a cause for Indian culture being less prone to avoiding uncertainty, as people are more concerned about their position after their death than the present real life.

The working environment of India is easygoing. This can be seen by the working environment in government offices and

companies. Information is disorganised and papers fill up the office space (Kalman, 1990). This reveals that Indians are easy-going, indolent and lazy, which again leads to the fact that Indians are less concerned about avoiding uncertainty.

Now, in brief the culture of India, as given in the study conducted by Hofstede (1991), can be explained as follows:

In India, power distance is high, individualism is low, masculinity is moderate and uncertainty-avoidance is low.

Linking societal values to accounting values

Taking the model proposed by Gray, the accounting values of India can be described as follows:

ACCOUNTING VALUES	
Professionalism	Low
Uniformity	High
Conservatism	Low
Secrecy	High
Type of accounting system	U.K.
Specific Factor Colonial History	British

Note:

This analysis is based on taking the cultural value of ‘power distance’ and linking it to the corresponding accounting value as given by Gray (1988). However, where such a link has not been found in the table, the cultural dimension of ‘uncertainty avoidance’ has been taken into consideration.

If we consider the model showing the relationship between Gray’s accounting values and Hofstede’s cultural dimensions, as given by Baydoun and Willett (1995) before, then as India ranks high in regard to ‘power distance,’ ‘professionalism’ should be low as there is an inverse relationship between the cultural value of ‘power distance’

and the accounting value of 'professionalism.' Similarly, as India ranks high in regard to 'power distance,' the accounting value of 'uniformity' should be high due to a positive relationship between the cultural value of 'power distance' and the accounting value of 'uniformity.' Thirdly, as no link was available between the cultural value of 'power distance' and the accounting value of 'conservatism,' the cultural value of 'uncertainty-avoidance' was taken into consideration while examining the accounting value of India in regard to 'conservatism.' As India ranks low in 'uncertainty-avoidance,' the country should possess low 'conservatism' as these two values have a positive relationship. Lastly, India should possess high 'secrecy' as an accounting value since India ranks high in 'power-distance.'

The non-cultural elements

(i) Demographic Element

The total population of India is 1,047,074,600 as of October 2002, which is the second highest population in the world. The People of India share a common history that dates back 4500 years. The majority of people are Hindu, comprising 80% of the total population, followed by 14% Muslim, 2% Christian, 2% Sikh, 1% Buddhist, 1% Jains and others (India country review, 2003). There are a wide variety of languages spoken by people in various states of India; for example in West Bengal people speak Bengali while in Gujarat people speak Gujarati. The national language is Hindi while the official language is English.

Effect of population and the constituents of population on the accounting environment of India

As most of the people of India are Hindu, they are affected mainly by the beliefs of Hinduism.

Hinduism is an ancient religion that has its base in the early Indus valley civilisation of three thousand years ago. Hindus believe in two main principles, namely, 'Karma' and 'dharma,' which have composed the structure of traditional Indian society. The laws of dharma have led to the formation of the caste system. People were divided into groups taking their occupation as the base and the social class in which they were born. Their children and their children's descendants stayed in the same castes. Although the caste system is illegal in India, it still rules the lives of most people (Kalman, 1990). This has led to the power distance between people in India.

The ASB of the ICAI issues exposure drafts for comments from the ICAI members and the public at large. However, the pace at which the ASB has issued accounting standards, for example, 12 new standards in two years, raises considerable doubt as to whether ample time has been given to the public at large to comment on the exposure drafts of these standards. The voluntary organisations of academics, environmentalists, ecologists, humanists and others have hardly shown any influence on corporate reporting in India (Banerjee, 2002a), which reconfirms the doubt. The ICAI and the profession were given little time by the Securities and Exchange Board of India (SEBI) to understand and resolve areas of disputes and inconsistencies. This might be due to the power distance feature of India, in other words, the ICAI does not consider the comments received from the public at large to be important (Banerjee, 2002a).

At present, there are some differences between the Indian accounting standards and the Companies Act, as in the case of the preparation of a Cash Flow Statement. The Companies Act deals with the Balance sheet and the Profit & Loss statement and not the entire set of financial statements including the Cash Flow Statement. However, on the other hand, SEBI and the ICAI require the preparation of Cash Flow Statements. ICAI is not a judicial body and the Cash Flow Statement is not required to be prepared under the Companies Act. Hence, unlisted companies with turnover of greater than Rupees 50 crores (500 million) may not like to prepare Cash Flow Statements although the auditors are required to qualify their audit reports where Cash Flow Statements are not presented. These inconsistencies between the Companies Act and ASs is most likely to be due to the influence of the SEBI on the ICAI and hence the policy of the ICAI to adapt IFRSs (Banerjee, 2002a), which denotes the power of an organisation, for example, the SEBI. This has been possible probably because of the power distance in India.

(ii) Structural Element

Economic changes

Until the 1990s India had a tightly controlled economy that permitted only insignificant foreign investments. From July 1991 policies in regard to industries and investment have become gradually simpler, more liberal and more transparent. The restrictions on foreign banks entering the Indian market have been removed and many foreign institutions are allowed to own up to 20 percent of the equity in Indian banks. These changes were made partly in response to the commitments of India in the WTO under the 'General Agreement on Trade in Services' (Arun and Turner, 2002). However, foreign

investment remains relatively controlled even now with equity limits for investors in many sectors, and approval is required for different types of foreign investments. In some of these sectors limits can be surpassed on a case-by-case basis (India Country Review, 2003).

The rules of foreign investment vary from industry to industry and are changed often, usually to become more liberal. At present automatic approval has been given for foreign equity investment in many sectors (India Country Review, 2003).

Foreign investment under the automatic approval process of the Reserve Bank of India (RBI) does not require foreign equity to cover the requirements of foreign exchange for imports of capital goods in other sectors. The Government of India (GOI) waived the conditions of dividend balancing on June 12, 2000, which required 22 industries to match export earnings to the remittances of dividend. Requirements to gradually reduce foreign equity and transfer technology have been withdrawn for most sectors (India Country Review, 2003).

Approvals for Foreign Direct Investment (FDI) have increased sharply since the introduction of reforms in July 1991. More than US\$ 6.7 billion in FDI was approved in 1999. The U.S. continues to be a significant source of foreign direct investment in India, accounting for 12.6 percent of investments approved estimated actual inflows of US\$4,016 million in 1999 which accounted for approximately 59 percent of total FDI approval (India Country Review, 2003).

The Gross Domestic Product (GDP) of India has increased over the years. Growth was notable in 1980s. The population growth has marginally slowed down, and the per-capita income has accelerated accordingly (www.indiainfoline.com). While the GDP at market price was Rs.3957.8 billion in the year 1988-89, it increased to Rs.12769.7

billion in the year 1996-97. However, the highest growth up to the year 1997-98 was achieved between the year 1994-95 and 1995-96, which was Rs.1554.7 billion (Refer to Appendix 1 for details).

Similarly, the Gross National Product (GNP) of the country has also increased significantly over the years. While it was Rs.3482.1 billion in the year 1988-89 at the factor cost belonging to the year 1997-98, it increased to Rs.11353.7 billion in the year 1996-97 at the same price level. However, the highest growth up to the year 1997-98 was achieved between the year 1995-96 and 1996-97, which was Rs.1425.7 billion (Refer Appendix-2 for details).

The per capita income of India has also improved gradually. While in the year 1988-89, it was Rs.3842.1 per capita net product at the price level of 1997-98, it increased to Rs.10771.2 in the year 1996-97. The highest increase in per capita income up to the year 1997-98 took place between the years 1993-94 and 1994-95, which was Rs.1206.9 (Refer Appendix-3 for details).

Inflation has been low for India as compared to other developing countries (www.indiaonline.com). The average rate of inflation in the country was the highest in the year 1991 reaching 13%. However, after the year 1995, it started to decrease drastically, reaching a level of 6.9% and 6.1% respectively in the years 1996 and 1997 (Refer to Appendix – 4 for details).

The Balance of Payment (B.O.P) position of India has improved as well, over the years. While the B.O.P was (-) Rs 44.7 billion in the year 1990-91, it attained a B.O.P of (+) Rs 267.8 billion in the year 1993-94, which is the highest. Then, in the year 1995-96 the country again had a deficit balance of Rs.40.5 billion. However, it attained a positive balance of Rs.182.5 billion in the year 1998-99 (Refer to Appendix-5 for details). The inflow of foreign investment in

India has increased over the years. While it was only Rs.2 billion in the year 1990-91, it reached a figure of Rs.344.4 billion in the year 1997-98 which was the highest until 1998-99 (Refer to Appendix-6 for details).

Economic change in India and its effect on Accounting

The change in the economy of India, from protective to competitive end, has had a noticeable effect on accounting standards setting. The country is trying to attract more foreign investment, and is therefore harmonising the diverse accounting policies and practices based on IFRSs.

An interesting relation in this regard is that the ASB started to issue mandatory accounting standards only in 1991, which can be attributed to the changing economic policy of the GOI as Indian economic policy became liberal in regard to industries and investment in the same year.

There was no pressure from the users of financial statements to develop accounting practices capable of incorporating the effects of inflation into the accounting reports, as the rate of inflation in India was low.

4.2 Organisational Environment

According to Gernon and Wallace (1995), the organisational environment includes elements such as organisational size, complexity, culture and human and capital resources.

Accounting is invariably put to use in organisations. Here organisations refer to:

- (i) private corporations
- (ii) public sector bodies

(iii) state or national governments

(iv) international bodies like the World Bank, IASC and national standards-setting bodies.

Organisational environment of India

The GOI has adopted the principle of a mixed economy since 1951, which refers to the existence of both the private and public sectors (Mukherjee and Mukherjee, 1998).

Indian planners and policy makers realised that most industries having national importance would have to be brought under the ownership and control of the public from the very beginning. The main purpose is to increase the rate of capital formation and hence the overall growth of the economy. It was realised that the rate of growth of the economy could be increased by nationalising some of the industrial, banking and insurance units and setting up new units in the public sector. Hence, the public sector has become an integral part of the process of planned economic development of India. In India, the name 'privatisation' has been used since the late 1980s after the British Government succeeded with this experiment in the mid-1980s. The industrial Policy of 1991 at last reduced the priority areas for the public sector in the future to essential infrastructure, goods and services, exploration and exploitation of oil and mineral resources, technical development and the development of infrastructure capabilities in areas which are significant in the long-term development of the economy and where private sector investment is not adequate, and manufacture of products such as defence equipment, where strategic considerations dominate (Mukherjee and Mukherjee, 1998).

However, in spite of a strong move in favour of privatisation in India, it became very difficult to put the idea into effect due to the strong opposition of trade unions. As a result, the government declared that it does not intend to denationalise any of the Public Sector Units (PSUs), including loss-making ones in the field of banking, insurance, power-generation, coal mines, postal services and so on. However, there was still 25% to 30% overstaffing in PSUs in 1998 (Mukherjee and Mukherjee, 1998).

In regard to the discussion of the organisational environment of India, it is significant to note the openness of the Indian market to foreign investment. Until the 1990s India had a tightly controlled economy, which allowed very limited foreign investment. From July 1991 policies in regard to industries and investment have been made simpler and liberal with a view to facilitating foreign investment to a certain extent. The policy at present is automatic approval for foreign equity investment in many sectors (India Country Review, 2003).

The GOI gives significant attention to bilateral investment agreements and has signed Bilateral Investment Treaties (BIT) with many countries, such as the U.K., France, Germany and Malaysia (India Country Review, 2003).

Foreign investment of up to 100 percent is permitted in units set up in Export Processing Zones (EPZ's), Software Technology Parks (STP's), Electronic Hardware Technology Parks (EHTP's), and Export Oriented Units (EOU's) (India Country Review, 2003).

Approvals in regard to FDI have increased since the introduction of reforms in July 1991. The government is also promoting knowledge-based industries. In May 2000, the government announced a 10-year tax holiday for knowledge-based industries such as

pharmaceuticals and biotechnology to facilitate their research and development activities (India Country Review, 2003).

A direct link between the organisational environment of India and the accounting environment can be perceived in the fact that the ASB of the ICAI started to issue mandatory standards only in the year 1991, which is the same year as the liberalisation of the economy by the GOI, and hence the promotion of the private sector. The ICAI issued its second highest number of standards in 1991, that is, 5 accounting standards. During the first 5 years after the reform in 1991, approvals of FDI rose rapidly.

During the period 1993-97, FDI approvals increased at the rate of 65% in terms of US\$ per annum to reach US\$15.3 billion in 1997. During this period 1993-97, inflows of FDI increased rapidly, rising at the rate of 80% per year in terms of US\$ ("Falling Interest," 2002). This increase in FDI in India has further necessitated the use of internationally accepted accounting practices leading to a rapid adaptation of IFRSs. The ICAI issued the highest number of standards in the year 2001, that is, 6 standards.

4.3 Professional Environment

According to Gernon and Wallace (1995), the 'professional slice' refers to "*events and/ or trends bearing on the determination of roles and relationships in the accounting profession (for example, new approaches to the teaching of accountants)*" (p. 60).

The professional accounting environment refers to the training, registration, education and discipline of accountants and auditors, and to professional ethics and culture. It also includes issues such as the quality and failure of audits, audit fees and the effectiveness and status of auditors in the society. Also, it deals with

the performance and the role of accountants as a self-regulatory body of professionals and the improvement of professionalism in corporate reporting.

Professional environment of India

In India, the main sources of accounting regulation are as follows:

- Companies legislation (Companies Act 1956) presently known as Companies (Amendment)/ (Second Amendment) Act 2002
- The stock exchange listing requirements, that is, Securities & Exchange Board Of India (Amendment) Act, 2002
- Indian Accounting Standards (ASs)

(i) Accounting Standards

The Indian GAAP consists of a set of various pronouncements issued by different regulatory authorities, but predominantly controlled by the ICAI. Actually, the existence of lots of formulating and monitoring agencies has obstructed the smooth implementation of Indian GAAP. The ICAI also issues 'guidance notes' besides accounting standards in areas not specifically dealt with by accounting standards. However, these guidance notes are being increasingly withdrawn with the introduction of new accounting standards. This happened in the case of AS 22 'Accounting for taxes on income.' The 'expert advisory committee' formed by the ICAI also provides interpretive guidance on various accounting and auditing issues besides accounting standards and various guidance notes (D'Souza, 2002).

The ICAI derives its power from a legislation known as the Chartered Accountants Act, 1949 (Banerjee, 2002a). As mentioned

earlier, the ICAI established the ASB on April 21, 1997 with a view to harmonising diverse accounting policies and practices in India. The principal task of the ASB is to formulate accounting standards, so that they can be made mandatory by the council of the ICAI. The ASB considers the laws, customs and business environment of India while formulating its standards. The ICAI is a member of the IASC and has agreed to support the objectives of the IASC (D'Souza, 2002).

The ASs pronounced by the ICAI apply to 'general purpose financial statements.' This includes Balance Sheet, Profit & Loss account, other statements and explanatory notes, which comprise part thereof, issued for the use of shareholders/members, creditors, employees and the public at large. The accounting standards do not apply while accounting for tax purposes unless stated by tax authorities (D'Souza, 2002).

(ii) Accounting standards-setting process

The areas in which ASs need to be formulated are at first determined by the ASB. Then, the study groups formed by the members of the ICAI and others help the ASB to consider specific subjects. The ASB also holds dialogue with the public sector, Government, industry and other organisations to ascertain their views. Exposure drafts are then prepared and issued for public comment. After considering the comments received, the exposure draft is amended if necessary by the ASB and submitted to the council of the ICAI for approval. At last, the council of the ICAI considers the final draft and if necessary modifies it in consultation with the ASB. Finally, the AS(s) is/are issued.

It is significant to note in this regard that, until now there has been no conceptual framework formally issued by any private or government body in India (Banerjee, 2002a).

The process of standards-setting requires improvement, for example, the exposure draft in relation to 'Accounting for taxes on income' did not have any provisions in relation to 'what needs to be done with the first time deferred tax adjustment' while introducing the standard. However, when the final standard was issued a provision was introduced which required the first time deferred tax adjustment to be adjusted against revenue reserve (D'Souza, 2002, pp.9-10). This fact proves that though the process of standards setting in India requires the participation of the government, the public sector, industry and other organisations together with obtaining comments from the public, this does not happen in all cases. Hence, some of the accounting standards issued by the ICAI may not have large backing.

Finally, the ICAI is the sole authority in the pronouncement of accounting standards in India. The Companies Act also requires compliance with mandatory ASs issued by the ICAI.

(iii) Membership

Refer to Appendix- 7 for details.

(iv) Statutory requirements

In India, the regulatory framework governing corporate disclosure includes the Companies Act 1956 and the Securities and Exchange Board of India (Amendment) Act 2002.

(A) The Companies Act 1956

The Companies Act 1956 has been amended several times, and is now known as Companies (Amendment)/(Second Amendment) Act 2002. The Act contains detailed provisions regarding the preparation of annual accounts and reporting.

The annual accounts of companies are prepared according to Schedule VI of the Companies Act, 1956, and are known as Balance Sheet and the Profit & Loss Account (or Income and Expenditure Account, in the case of a non-trading company). These are required to be prepared according to Section 211 and Schedule VI to the Companies Act, 1956. Part I of the schedule contains the form of Balance Sheet, and Part II prescribes the contents of a Profit & Loss Account.

The Companies Act requires the companies to abide by the ASs of the ICAI. However, before the Companies (Amendment) Ordinance, 1998 and 1999, there was no statutory support in regard to compliance with the accounting standards issued by the ICAI (Banerjee, 2002a). However, under Section 211 of the Companies Act, companies are required to disclose the following in the event of non-compliance with the accounting standards:

Firstly, difference(s) from the accounting standards

Secondly, the causes of such differences

and,

Lastly, the financial effect of such differences.

However, the Act does not have any provision in regard to the maintenance of books of accounts for trading concerns (Banerjee, 2002a).

(B) The Securities and Exchange Board of India (Amendment Act) 2002

The Securities and Exchange Board of India Act, 1992 has facilitated the establishment of a Board (SEBI), for the following purposes:

- to protect investors' interest in securities
- to facilitate the development of the securities market
- to regulate the market of securities

and

- to provide for incidents or matters connected with that.

The SEBI has been formed in accordance with the same structure as that of the SEC of the USA (Banerjee, 2002a). The SEBI has the duty according to Section 11 of the Act, to protect the interests of investors in securities, to facilitate the development of the securities market and to promote it by such ways as it thinks fit, subject to the provisions of the Act.

The Act came into effect on the 30th January 1992. It has been amended several times, as follows:

- the Securities Laws (Amendment) Act, 1995, with effect from 25-1-1995
- the Depositories Act, 1996 with effect from 20-9-1995
- the Securities Laws (Amendment) Act, 1999, with effect from 22-2-2000
- the Securities Laws (Second Amendment) Act, 1999, with effect from 16-12-1999, and
- the Securities and Exchange Board of India (Amendment) Act, 2002, with effect from 29-10-2002 (Taxmann's, 2003).

At present, in accordance with section 4 of the Act, the SEBI of India is to consist of one chairman, two members from the

officials of Ministers of the Central Government dealing with Finance and Law, one member from the officials of the RBI and two other members. The chairman and other members should be persons of ability, integrity and standing who have proven capacity for dealing with problems in relation to the securities market or have special knowledge or experience of law, finance, economics, accountancy, administration or in any other areas, which in the opinion of the Central Government, shall be useful to the Board. Practically, an official of the department of company affairs is nominated by the Central Government on behalf of the Ministry dealing with law. The department of company affairs, which was a part of the Ministry of Law, Justice and Company Affairs has been tied in with the Ministry of Finance. Hence, Section 4 has been changed, by the Amendment Act, to provide that one of the members of the Board representing Ministries of the Central Government shall be from the officials of the Ministry dealing with administration of the Companies Act, 1956 instead of from officials of the Ministry dealing with Law. Also, it has been provided that there shall be five other members instead of two other members and among these five other members at least three shall be whole-time members. Now the composition of the Board shall be as follows:

- a chairman selected by the Central Government;
- two members from the officials of the Ministries of the Central Government dealing with finance and administration of the Companies Act, 1956 selected by the Central Government;
- one member from the officials of the RBI (nominated by the Reserve Bank);

- five other members of whom three shall be the whole-time members nominated by the Central Government (Taxmann's, 2003).

However, the stock exchange regulation of accounting has not been very dominant until now (Banerjee, 2002a).

(v) The stock exchange listing requirements of India

India has 23 stock exchanges in various cities, which have their own different listing requirements. The stock exchanges are as follows:

- 1) The Bombay Stock Exchange
- 2) The Ahmedabad Stock Exchange Association Limited
- 3) Bangalore Stock Exchange Association Limited
- 4) Bhubaneswar Stock Exchange Association Limited
- 5) The Calcutta Stock Exchange Association Limited
- 6) Cochin Stock Exchange Association Limited
- 7) The Delhi Stock Exchange Association Limited
- 8) The Gauhati Stock Exchange Association Limited
- 9) The Hyderabad Stock Exchange Limited
- 10) Jaipur Stock Exchange Limited
- 11) Kanara Stock Exchange Limited
- 12) The Ludhiana Stock Exchange Association Limited
- 13) Madras Stock Exchange Limited
- 14) The Magadh Stock Exchange Limited
- 15) Pune Stock Exchange Limited
- 16) Saurashtra Kutch Stock Exchange Limited
- 17) The Uttar Pradesh Stock Exchange Association Limited
- 18) Vadodara Stock Exchange Limited
- 19) Coimbatore Stock Exchange Limited

- 20) Meerut Stock Exchange Limited
- 21) The National Stock Exchange of India Limited
- 22) Inter Connected Stock Exchange of India Ltd
- 23) Madhya Pradesh Stock Exchange Limited

(www.mapsofindia.com)

However, the three largest stock exchanges are Mumbai (Bombay), followed by New Delhi and Calcutta.

The Bombay Stock Exchange

The Bombay stock exchange was established in 1875 as 'The Native Share and Stock Brokers Association,' and it is the oldest one in Asia (www.bseindia.com).

The objectives of listing as stated in the website of the Bombay Stock Exchange are as follows:

- to provide liquidity to securities
- to mobilise savings for economic development
- to protect interest of investors by ensuring full disclosures.

This stock exchange has a separate department to grant listing of securities of companies in accordance with the provisions of the Securities Contracts (Regulation) Act 1956, Securities Contracts (Regulation) Rules 1957, Companies Act 1956, guidelines issued by SEBI and rules, regulations and by-laws of the exchange.

A new Company requires the following main conditions to be fulfilled to get listing status:

(a) Minimum Capital: Listing can be granted on the exchange if the issued and subscribed equity capital after the public issue is Rs 10 crores (100 million). Additionally, the issuer company should have a net worth of Rs 20 crores (200 million), after issue. However, there are different conditions for technology companies, and for those companies listed on other stock exchanges (www.bseindia.com).

(b) Minimum Public Offer: According to Rule 19(2) (b) of the Securities Contracts (Regulation) Rules, 1957, securities of a company can be listed on a stock exchange only when a minimum 25% of each class or kind of securities is offered to the public for subscription. However, different rules apply for companies in Information Technology (IT) and the entertainment sector (www.bseindia.com).

The Calcutta Stock Exchange Association Limited

(a) Minimum Capital: The Calcutta Stock Exchange was incorporated in 1908, with 150 members. Now, its total membership is more than 900 (www.cse-india.com).

The stock exchange requires a threshold limit of Rs 5 crores (50 million) issued equity capital and above for listing purposes of new companies, however it is different for new technology companies. In the case of new technology companies, the following criteria applies in regard to the threshold limit:

- the total income/ sales from the principal activity, which should be in the area of information technology, internet, e-commerce and telecommunication, should not be less than 90% of the total income during the two immediately preceding years as certified by the auditors of the company.
- the minimum paid up capital after the issue should be Rs. 3 crores (30 million).
- the minimum market capitalisation should be Rs. 25 crores (250 million). In this context, the post issue subscribed number of equity shares should be multiplied by the issue price to calculate the market capitalisation (www.cse-india.com).

Hence, comparing these two major stock exchanges reveals that the minimum capital requirement for listing on the Bombay stock exchange is more than that of the Calcutta stock exchange.

Additionally, the Bombay stock exchange also requires a minimum of 25% of each class or kind of securities to be offered to the public for subscription in order to list the securities of a company. This requirement is absent in the case of the Calcutta Stock Exchange.

The Bombay Stock Exchange has more stringent criteria for listing purposes than does the Calcutta stock exchange.

Professional environment in India and its effects on accounting

In India the first Companies Act was introduced in 1857 in the British Parliament under British rule. The Companies Act 1857 continued to be in force for 9 years. However, this Act was changed in the years 1866, 1882 and 1913. The last Companies Act under British India came into force in 1913, and was amended in 1936. This Companies Act remained in force up to 1956. In 1956 the first corporate legislation was passed in independent India, which was amended several times in, 1961, 1977, 1988 and 1989 (Banerjee, 2002a). The particulars of information to be disclosed in the Profit & Loss Account and in the Balance Sheet of a corporate body are governed by the Companies Act 1956 (Banerjee, 2002a). It is significant to note here that the Companies legislation in India had its origin under the British rule. This has most likely made the accounting standards pronounced by the IASB more acceptable in India as one of the dominant members of the IASB is the U.K.

It also seems that the professional environment of India has been significantly influenced by the USA in recent times, as the SEBI has been formed with the same structure as that of the SEC. This influence of the USA has probably led India to consider IASB standards as well, since the USA is also a board member of the IASB.

4.4 Individual environment

According to Gernon and Wallace (1995), the choices of accounting policy are made by individuals. *"This slice covers the actions of these individuals as persons, organisations and professional bodies in their effort to pursue their respective self-interests"* (p.60).

Individual environment is concerned with the explanation and prediction of actions of individuals. The individual environment covers the total setting in which standard-setters are lobbied by reporting enterprises, professionals and other non-professional members of the society and use accounting numbers to their advantages, respectively (Gernon and Wallace, 1995).

India is a large power-distance country. This has been mainly created by the beliefs and caste system of Hinduism, which is the main religion in the country, including 80% of the total population.

Though the standard setting process seems to take into account each and every comment received by the ASB and everyone has the right to submit his or her comments, in practice it is doubtful as to whether that happens in reality. This can be supported by the fact that the ICAI pronounced 12 standards in two years. Generally, the big accounting firms respond to the exposure draft of the accounting standards but response from the industry is poor (D'Souza, 2002). There also seems to be significant pressures from the capital market regulator (SEBI) on the ICAI, as the ICAI issued 12 accounting standards on many important areas in a period of two years from April 2000, admittedly under pressure from the SEBI (Banerjee, 2002a).

4.5 Accounting environment

According to Gernon and Wallace (1995), the 'accounting slice/ environment' refers to "*accounting practices, rules and/or trends that affect or are affected by other slices of the environment*" (p.60).

Accounting influences the environment proactively, and it is not a passive agent responding to its external environment. Corporate financial reporting systems depend on environmental variables, such as:

- (1) the requirement in regard to the classification, disclosure, presentation, valuation and measurement, of different countries.
- (2) the reporting frequency, the method of measuring events, methods of cost allocation, the time element of information, the degree of decentralisation and aggregation and the disclosure of reports having a special purpose; such as, value-added statements, reports in respect of employment and other forms of social accounting, and
- (3) the reporting method, its cognitive complexity, and the disclosure of certain special purpose reports, such as simplified accounts (Gernon and Wallace, 1995).

According to Lee (1987), the accounting information infrastructure is made up of four basic elements. They are as follows:

- (1) the primary producers of information and final users
- (2) intermediaries of information
- (3) laws and regulations that govern the production, transmission, and usage of information, and,
- (4) legal entities that monitor and implement the laws and regulations.

In India, the accounting system and legal system have been developed in a British pattern. The Companies Act 1936 remained in force for nearly two decades (Banerjee, 2002a).

The provision for scientific marshalling of assets and liabilities in the Balance Sheet, along with figures of the last accounting year side by side with current figures in the Profit & Loss Account as well as in the Balance Sheet, came into operation in India only after the introduction of Schedule VI to the Companies Act 1956 (Banerjee, 2002a). The Companies Act 1956 had its origin in British India. However, the Companies Act has been amended several times in 1961, 1977, 1988 and 1989 (Banerjee, 2002a).

At present, following the deregulation of the economy in 1991, India is trying to bring its accounting standards closer to IFRSs, subject to applicable local laws, customs and business norms. The ASB of the ICAI is in charge of this process and the finalised exposure draft prepared by the ASB is submitted to the council of the ICAI to approve it as a mandatory standard.

The ASB was established in 1977, with the motive of harmonising the diverse accounting policies and practices of India. However, the ASB and hence the ICAI has started to pronounce mandated standards only recently, from the year 1991, principally in the spirit of international harmonisation of accounting standards.

Hence, the accounting environment in India mainly consists of companies' legislation and accounting standards (pronounced by the ICAI).

4.6 Conclusion

The cultural environment of India is characterised by high power distance, low individualism, moderate masculinity and low uncertainty-

avoidance. This should lead the country to have low professionalism, high uniformity, low conservatism and high secrecy as accounting values if the framework proposed by Gray (1988) is taken into consideration.

India has specific influences from the U.K., as India was colonised by the British and the Companies Act of India has its origin in the Companies Act, 1857 imposed for the first time in India by the British Parliament. This has probably influenced India also, to consider IFRSs while setting Indian ASs, as the U.K. has considerable influence as a Board member of the IASB.

The main impetus behind harmonisation of accounting standards by the ICAI with those of IFRSs (subject to the customs, business environment, usages and local laws of the country) can be attributed to the changed economic policy of the Government. Pressures also came from the capital market regulator, that is, the SEBI.

However, it is surprising to note the rate of pronouncement of standards by the ICAI, for example, the ICAI has introduced 30 standards including revision of existing standards, during the period from 1991 to 2004. This leads to further doubt in regard to the number of comments received by the ICAI and whether the ICAI really considers each and every comment.

Finally, it should be noted that the adaptation of IFRSs by the ASB of ICAI should fit properly into the accounting ecology of India. Otherwise enforcement of these IFRSs based accounting standards by the ICAI on companies, with the help of the Companies (Amendment) Ordinance, 1998 and 1999 (Banerjee, 2002a) might not have a smooth run in India.

CHAPTER FIVE
COMPARISON OF THE IFRSs AND THE INDIAN ACCOUNTING
STANDARDS

5.0 Introduction

This chapter describes the approach taken by India while adapting IFRSs, by comparing IFRSs and ASs. Accounting and reporting requirements of specialised industries such as banking, insurance, finance and so on, and the requirements of the Companies Act have not been taken into consideration in this regard.

In many respects ASs are very similar to IFRSs. However differences exist in certain areas, which are explained in this chapter. The study includes only a sample of Indian standards for the purpose of comparison, as the dates of formulation of some Indian standards are before the date of formulation of the corresponding current IFRSs in July 2002. Hence, those standards were ignored. Some other standards, which were formulated in India at a date very close to the date at which the corresponding IFRS was reformatted, were also ignored. It is possible that the ICAI has not had the time to change its newly introduced standard to conform to that of the IFRS.

ASs as at July 2002 has been compared in detail with the corresponding IASs as in 2002, and in some cases 1995. IASs formulated before 1995 were not considered due to the limitation of time and resources. This is a limitation of the present study.

A sample of 16 accounting standards was considered for the purpose of comparison (Refer to Appendix-8 for details).

5.1 Result of the comparison

5.1.1 Valuation of inventories

IAS-2 requires the disclosure of the accounting policies adopted in the measurement of inventories including the cost formula used and the total carrying amount of inventories together with its classifications appropriate to the enterprise, which are the same as that of the AS-2.

Significant difference lies in the extent of guidance provided by the International standard and the Indian standard in regard to valuation of inventories. Whereas the IAS provides clear guidance regarding the cost of inventories of a service provider and treatment of inventories in the event of selling, the Indian standard does not provide guidance in this regard. Hence, the guidance depends on the independent professional judgement of accountants and auditors in India. Another significant difference exists concerning the formulas for measuring the cost of inventories, that is, while the IAS-2 also allows the LIFO method, the Indian standard allows only the use of FIFO or Weighted Average cost formulas. This gives an indication that the Indian standard provides less flexibility in regard to measurement methods. Disclosure requirements of IAS-2 are more than those of the Indian standard, for example the IAS-2 requires the disclosure of the carrying amount of inventories carried at net realisable value and the disclosure of the cost of inventories to be recognised as an expense during the period, while these are not required to be disclosed under the Indian standard (Refer to Appendix-9 for details).

5.1.2 Cash Flow Statements

IAS-7 and AS-3 both recommend the use of the exchange rate between the reporting currency and the foreign currency at the

date of the cash flow to the foreign currency amount, while recording the cash flows arising from transactions in a foreign currency in an enterprise's reporting currency. Similarly, in regard to acquisitions, disposals of subsidiaries and other business units, both the standards require the disclosure of total consideration in regard to purchase or disposal and the portion of purchase or disposal consideration discharged by way of cash and cash equivalents.

Significant differences exist between the IAS and Indian standard encompassing 'Cash Flow Statements' in regard to the application of the standard. While the IAS-7 is compulsory and must be followed by those enterprises that follow the IAS, the Indian standard is mandatory only for specific enterprises, that is, those whose equity or debt securities are listed on a stock exchange recognised in India, not for other enterprises. Finally, the disclosure requirement of the AS-3 is less than that of the IAS-7 in regard to acquisitions or disposals of subsidiaries or other business units (Refer to Appendix-10 for details). As a result, Indian enterprises might not disclose this information but keep it secret.

5.1.3 Provisions, Contingent liabilities and Contingent assets

In 2002, IAS-37: Provisions, contingent liabilities and contingent assets supersede the parts of IAS-10: Events after the Balance Sheet date (effective from 1.1.2000) that are in relation to contingencies. AS-4: Contingencies and events after the Balance Sheet date (effective from 1.4.1995) is not in line with the IAS-37 in this area. As a result, AS-4 cannot really be compared with the IAS-10 together with the IAS-37. Hence, for the purpose of comparison, IAS-10 has been compared with AS-4.

The difference in disclosure requirements between IAS-10 and AS-4 is significant, as the IAS-10 provides more disclosure requirements regarding additional exposure to loss, which is expected to caution various interested parties such as prospective investors, but there is no such requirement in AS-4 (Refer to Appendix-11 for details).

5.1.4 Net profit or loss for the period, prior period items, fundamental errors and changes in accounting policies

The IAS-8 and AS-5 are similar in various aspects. Some of these similarities can be given as follows:

Accounting treatment of the items: Both standards require the profit or loss from ordinary activities recognised in a particular period of time to be included in the determination of the net profit or loss for the period.

Disclosure of extraordinary items: Both standards require separate disclosure of extraordinary items. Both of the standards emphasise the nature of events or transaction rather than the frequency with which such events are expected to occur, in determining whether an item is extraordinary.

Terminology and concepts: The term 'prior period items' under the AS-5 is same as the term 'fundamental error' under the IAS-8.

Treatment of a change in accounting estimate: Both standards require the effect of a change in accounting estimate to be included in the determination of net profit or loss in the period of change if the change affects only the particular period, or the period of change and future years if the change affects both.

Disclosure of a change in accounting estimate: Both standards require the inclusion of the effects of a change in an accounting estimate in

the same income statement classification as was previously used for the estimate.

Definition of a change in an accounting policy: Neither standard considers the adoption of an accounting policy for events or transactions that are different in substance from previously occurring events or transactions, or the adoption of a new accounting policy for events or transactions which did not take place in the past or that were immaterial, as changes in accounting policies.

On the other hand, disclosure requirements of IAS-8 are greater than those of the AS-5; for example while the IAS-8 requires the disclosure of the nature of a fundamental error, there is no such disclosure requirement in the AS-5 (Refer to Appendix-12 for details). Hence, it seems that the AS-5 does not take the perspective of a publicly accountable approach to financial reporting compared to IAS-8.

5.1.5 Construction Contracts

The IAS-11 and AS-7 are identical, except in regard to the measurement of 'contract revenue.'

The AS-7 does not specifically mention 'fair value' in regard to the measurement of contract revenue, while it is specified under IAS-11 (Refer to Appendix-13 for details). Hence, the measurement depends on the professional judgement of accountants and auditors in India.

5.1.6 Borrowing costs

The AS-16 is similar to IAS-23, except regarding accounting treatment of borrowing costs and disclosure requirements (Refer to Appendix-14 for details).

The AS-16 does not require the disclosure of the rate of capitalisation used in the determination of the amount of borrowing cost eligible for capitalisation, and hence Indian companies might keep this information secret.

5.1.7 Segment reporting

The AS-17 is similar to IAS-14, except in few cases, such as in regard to their application and disclosure requirements (Refer to Appendix-15 for details).

The AS-17 does not allow the combination of two or more internally reported business segments on geographical segments that are subsequently similar, though this is allowed under the IAS-14. Hence, the disclosure requirement of the Indian standard is greater than that of the AS-17 in this context. Hence, Indian enterprises are required to provide more detailed information in this regard.

5.1.8 Related party disclosures

The AS-18 is similar to the IAS-24, except in a few areas, such as disclosure requirements (Refer to Appendix-16 for details).

It seems that the AS-18 enables the enterprises to keep their 'related party transactions' secret as enterprises are not required to disclose this information if it affects the confidentiality of the reporting entity and specified in their statute. On the other hand, IAS-24 is mandatory for all enterprises.

While explaining the term 'substantial interest' in regard to significant influence, the IAS-24 is more flexible than the AS-18. IAS-24 does not mention any specific percentage in this regard, whereas AS-18 specifies that if an enterprise holds 20 percent or more interest in the voting power of the other enterprise, then it is assumed to have

'substantial interest.' The disclosure requirements of AS-18 are greater than those of the IAS-24.

5.1.9 Accounting for leases

Both AS-19 and IAS-17 require any excess of sale proceeds over the carrying amount resulting from a finance lease due to a sale and leaseback transaction to be recognised immediately as income in the financial statements of a seller-lessee. Also both the standards require this amount to be deferred and amortised over the term of the lease.

The disclosure requirements of AS-19 are more extensive than the IAS-17, such as in regard to the disclosure of finance leases and the disclosure of operating leases in financial statements of lessors (Refer to Appendix-17 for details).

5.1.10 Earnings per share

Measurement as well as disclosure requirements under IAS-33 and AS-20 are the same, except in some cases, such as in regard to the calculation of basic earnings per share and some disclosure requirements (Refer to Appendix-18 for details).

While calculating basic earnings per share, both the IAS-33 and AS-20 state that the net profit or loss for the period attributable to ordinary shareholders should be the net profit or loss for the period after the deduction of preference dividends.

5.1.11 Consolidated Financial Statements

Both AS-21 and IAS-27 require the identification of minority interests in the net assets of consolidated subsidiaries, and to be presented in the consolidated Balance sheet separately from

liabilities and the equity of the shareholders of the parent, in regard to the treatment of the minority interests in the net assets of consolidated subsidiaries. Minority interests in the net assets are composed of the amount of equity attributable to minorities at the date on which investment is made in a subsidiary, and the minority's share of movements in equity since the date the parent-subsidiary relationship came into existence. In this case, the AS-21 requires the consideration of the carrying amount of the investment in the subsidiary if it is different from its cost.

The AS and IAS only in regard to consolidated financial statements have been considered for the purpose of comparison. However, IAS-27 also deals with the accounting for investments in subsidiaries in separate financial statements of the parent, which has not been considered here. It must be noted that the IAS-27 and AS-21 are similar, but with a few differences, such as in regard to the difference in reporting dates between subsidiaries and the parent; disclosure requirements (Refer to Appendix-19 for details).

A significant difference between IAS-27 and AS-21 lies in regard to the definition of 'control.' While the IAS-27 is quite flexible in regard to its meaning, AS-21 is more specific and hence defines 'control' as the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the power of voting of an enterprise.

5.1.12 Accounting for investments in associates

While applying the equity method, IAS-28 as well as AS-23 require appropriate adjustments to the associate's financial statements when they are used by an investor in the application of equity method, in case an associate uses accounting policies other than those adopted

for the consolidated financial statements for like transactions and events in similar circumstances. Both the standards require the disclosure of the fact, if it is impracticable to do so.

While the AS-23 considers only the accounting for investments in associates in consolidated financial statements, the IAS-28 also deals with the separate financial statement of the investor, which is contained in AS 13: Accounting for Investments, in the Indian standard.

Significant difference lies in regard to the method of accounting for investments. While the IAS-28 recommends both the cost and equity method and hence leaves the choice of method to accountants, the Indian standard recommends the use of the equity method only. Disclosure requirements of AS-23 are more extensive than the IAS-28, for example while AS-23 requires the disclosure of a brief description of differences between accounting policies where an associate uses accounting policies other than those adopted for the consolidated financial statements for similar transactions and events in similar circumstances, which is not required in IAS-28 (Refer to Appendix-20 for details).

5.1.13 Discontinuing operations

The AS-24 is similar to the IAS-35 except in regard to disclosure requirements (Refer to Appendix-21 for details).

5.1.14 Interim financial reporting

The IAS-34 and AS-25 are similar, except in regard to content and form of interim financial report; restatement of interim periods reported previously (Refer to appendix-22 for details). In regard to the restatement of interim periods reported previously, both of these

standards require a change in accounting policy other than one for which the transition is specified by an accounting standard, to be reflected by restating financial statements of previous interim periods of the current year.

While the IAS-34 requires the preparation of Cash Flow Statement for all enterprises that prepares interim financial statements, the preparation of Cash Flow Statement is optional under AS-25, and hence enterprises might not prepare Cash Flow Statements, which might be detrimental to various interested parties, such as investors and analysts.

5.1.15 Intangible assets

The IAS-38 and AS-26 are similar, except while measuring intangible assets subsequent to initial recognition and in regard to the period of amortisation (Refer to Appendix-23 for details). In regard to the period of amortisation, both the standards allow the use of useful life more than the period presumed, where there is persuasive evidence in this regard stating the reason henceforth.

5.1.16 Financial reporting of interests in Joint Ventures

Indian and International standard regarding the 'Financial reporting of interests in joint ventures' possess different requirements in some cases, such as in regard to the treatment of items in consolidated financial statements of a venturer and reporting formats in the case of proportionate consolidation (Refer to Appendix-24 for details).

In regard to the reporting formats in the case of proportionate consolidation, IAS-31 allows different reporting formats, for example the venturer may combine its share of each of the assets, liabilities,

income and expenses of the jointly controlled entity with the items which are similar, in its consolidated financial statements on a line-by-line basis, which is the same in AS-27. Similarly, in the context of disclosure requirements, the IAS-31 requires the venturer to disclose a list of all joint ventures and description of interests in joint ventures, which are the same as in AS-27.

5.2 Conclusion

The comparisons of ASs with IASs reveal that in some cases, Indian standards require more disclosure than do the International standards and vice versa. Disclosure requirements of IASs are more than the corresponding Indian standards, in regard to: valuation of inventories; Cash Flow Statements; Provisions, contingent liabilities and contingent assets; Net profit or loss for the period, prior period items, fundamental errors and changes in accounting policies; Borrowing costs; Segment reporting; Related party disclosures; Discounting operations; Interim financial reporting.

On the other hand, Indian standards require more disclosures than do the respective IASs, in regard to: Accounting for leases; Earnings per share; Consolidated financial statements; Accounting for investments in associates; Financial reporting of interests in joint ventures.

In most cases Indian standards are more specific than the corresponding IASs, such as in regard to 'Related party disclosures.' IAS-24 does not specify any percentage to explain 'substantial interest' while AS-18 specifies that it is assumed that an enterprise has substantial interest in another enterprise if it holds 20 percent or more interest in the voting power of the other enterprise. Similarly, while defining 'control' in regard to 'consolidated financial statements' and

'accounting for investments in associates,' the respective Indian standards are more specific than their corresponding IASs. While the respective IASs define 'control' as "*the power to preside over the financial and operating policies of an enterprise so as to obtain benefits from its activities*" (IASB, 2002, p.27-4) which seems to be a quite relative term as the meaning of the term may vary from person to person in accordance with their perception, the respective Indian standards go further by specifying the meaning of 'control' as "*the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the power of voting of an enterprise, or to control the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise*" (D'Souza, 2002, p.1244). However, in some cases IASs provide more clear guidance than do the respective Indian standards, such as in regard to the 'valuation of inventories,' whereas IAS-2 provides clear guidance in regard to cost of inventories of a service provider and treatment of inventories in the event of selling, the AS-2 does not provide guidance in this regard.

In some cases the Indian standard is flexible, which is the same as the corresponding IAS, such as in regard to 'financial reporting of interests in joint ventures,' the AS-27 also allows different reporting formats in the case of proportionate consolidation. This is interesting, since Indian accounting standards do not allow more than one method of measurement in other cases, such as in regard to the 'valuation of inventories.'

It seems that Indian accounting standards place more stress on the 'company' form of business. This is evident from the fact that some Indian accounting standards, such as AS-3: Cash Flow Statements, are mandatory only for the 'company' form of business,

but the IAS-7: Cash Flow Statements, is mandatory for all types of businesses that prepare their financial statements following the IASs.

In most cases, while the IASs allow alternative treatments, the Indian standard allows only one treatment of the IASs, for example, in regard to valuation of inventories, AS-2 does not allow the use of the LIFO method for measuring the cost of inventories while it is allowed under the IAS-2 and in regard to accounting for investments in associates, while the IAS-28 recommends the use of both the cost and equity method in regard to accounting for investments, the AS-23 recommends only the equity method.

Ali et al. (2003) reveal that there are 15 IASs that have been adopted by India, Pakistan and Bangladesh as stated before in chapter-2. However, the present study gives a different result. There seem to be considerable differences between IASs and Indian Accounting Standards, in regard to: the valuation of inventories; Cash Flow Statements; Net profit or loss for the period, prior period items, fundamental errors and changes in accounting policies; Borrowing costs; Accounting for leases; Consolidated financial statements.

Finally it can be stated that though ASs are based on IASs, modifications are made to suit the local environment of India. However, some ASs are more similar to their corresponding IASs, such as in the case of 'provisions, contingent liabilities and contingent assets' and in regard to 'construction contracts,' than are others such as in regard to the 'valuation of inventories' and 'Cash Flow Statements,' where there seem to be more modifications made to the respective IAS to suit the local circumstances of India. Hence, depending on the nature of the modifications, compliance with ASs does not necessarily mean compliance with IFRSs.

CHAPTER SIX

SURVEY OF ANNUAL REPORTS- PRACTICE

6.0 Introduction

This chapter identifies the response of Indian companies to IFRSs, by examining the foreign listing status and reporting practices of companies listed on Indian stock exchange(s) to get an indication of the level of voluntary compliance of Indian companies with the IFRSs. Then, the financial statements included in the annual reports of a sample of companies have been studied to ascertain whether those companies actually comply with the specific recommendations of IFRSs. Whether there is any relation between the listing status of these companies and their reporting practices has also been explored.

Murphy (1999) suggests that companies having any foreign activity observe some advantages from the preparation of financial statements using International standards. Hence, it has been considered that companies listed on any foreign stock exchange may find reporting their financials in IFRSs to be more advantageous than those not listed on any foreign stock exchange. The sample of companies consists of 50 top Indian companies in terms of market capitalisation as listed in www.indiainfoline.com as on April 30, 2003. From the list of companies, banking, financial, insurance and electricity companies have been excluded since they have to comply with special rules and obligations in India (D'Souza, 2002). The list of companies studied is given in Appendix-25.

The annual reports as available on the websites of these companies for the year 2001-2002 have been examined to ascertain, whether they report their financials in any non-Indian GAAP such as the US GAAP or the IFRSs. However, wherever companies do not reveal their annual report for the year 2001-2002 on their website, annual reports for the year 2002-2003 have been considered for the purpose. Wherever companies do not reveal their

annual reports for the year 2002-2003 also, but reveal their annual reports for the year 2000-2001, this has been considered for the purpose. The websites of the respective companies have also been searched to examine whether they are listed on any foreign stock exchange(s), with a view to ascertain whether there is any link between foreign listing and reporting in any non-Indian GAAP.

Banerjee (2002a) reports the level of compliance of 50 Indian companies with the Companies Act 1956 and accounting standards issued by the ICAI divided into two groups. The first group consists of 25 companies that form a part of the BSE (Mumbai Stock Exchange) sensex and hold positions among the top 50 companies out of 500 companies ranked by The Economic Times based on market capitalisation. The second group consists of 25 companies that are listed on the BSE or other stock exchanges but which are not a part of the above 500 companies. The level of compliance of annual reports of these companies was investigated through the examination of annual reports for the year ended 31st March 2001. Hence, most of the items considered in the checklist for measuring compliance by these companies are mandatory by regulation. ASs are based on the IASs. Hence, his study gives an indication of whether companies follow IASs-based Indian standards. The study finds 100% compliance by companies with those requirements of regulation, which is quite obviously due to the fact that these requirements are mandatory for these companies. However, the study by Banerjee (2002a) did not examine whether Indian companies voluntarily follow the IASs, which will reflect the response of Indian companies to IFRSs. Hence, the present study will examine whether Indian companies voluntarily follow IFRSs.

6.1 Current reporting practices of Indian companies on their websites

Out of the 50 companies studied, annual reports could not be obtained for 8 companies, resulting in a sample of 42 companies in total. Out of these 42 companies one company does not prepare its financial statements in accordance with the Indian GAAP. This company reports its financial statements in accordance with the US GAAP only on its website, though it does not have any foreign listings.

The results obtained from the study of websites of 50 top companies are as follows:

Number of Companies for which full study could be done	42
Number of companies having foreign listing(s)	19
Number of companies having foreign listing(s) and reporting in US GAAP	5
Number of companies having foreign listing(s) and reporting in IFRSs	1
Number of companies having foreign listing(s) but not reporting in any foreign GAAP	14
Number of companies not having foreign listing(s) but reporting in US GAAP	1
Number of companies not having foreign listing but reporting in IFRSs	0

The study of these 42 companies reveals that most of the Indian companies do not prepare their financial statements in accordance with foreign standards. Only 5 out of 19 companies having foreign listing report their financial statements under US GAAP comprising 26.32% of these companies. On the other hand, only 1 company out of these 19 companies prepares its financial statements in accordance with the IFRSs, which is negligible.

It is interesting to note that only 1 company out of 23 companies not having any foreign listing reports its financial statements in US GAAP. On the other hand, none of the Indian companies, which do not have foreign listing, report their financial statements in accordance with the IFRSs.

So, in total only 1 out of these 42 companies studied prepares its financial statements in accordance with the IFRSs, which is non-significant. On the other hand, in total 6 companies out of these 42 companies studied prepare their financials in accordance with the US GAAP, comprising 14.29% of the total sample.

Table 1: List of companies reporting their financials in US GAAP and their listing status

Serial No.	Name of the company	Listing status
1	Wipro Technologies	Indian and foreign (ADS on NYSE)
2	Infosys Technologies Limited	Indian and foreign (ADSs on NYSE)
3	Bajaj Auto Limited	Indian and foreign (GDR on London Stock Exchange)
4	Satyam Computer Services Limited	Indian and foreign (ADR on NYSE)

5	HCL Technologies Limited	Indian
6	Videsh Sanchar Nigam Limited	Indian and foreign (ADR on NYSE)

Note:

ADS= American Depository Shares

ADR= American Depository Receipts

NYSE= New York Stock Exchange

GDR= Global Depository Receipt

Companies reporting any form of financial statements as per US GAAP were considered to be companies reporting their financials in accordance with the US GAAP.

Table 2: List of Companies reporting their financials in IFRSs and their listing status

Serial No.	Name of the company	Listing Status
1	Bajaj Auto Limited	Indian and foreign (GDRs on London Stock Exchange)

Note:

Companies reporting any form of financial statements in accordance with the IFRSs have been considered to be companies reporting their financials under the IFRSs.

6.2 Examination of financial statements of companies

6.2.1 Sample and the purpose

Out of the top 50 companies considered for study previously, with a view to investigating their current reporting practices, a sample of the top 30 companies has been selected in order to examine in detail their financial statements that will reflect whether or not these companies comply with certain reporting

practices under the IFRSs. In order to carry out this exercise a checklist of items was developed from the comparison of Indian standards and the corresponding IFRSs of 2002 (See, Chapter 5), which can be given as follows:

Specific Measurement Requirements/ Recommendations

Standard	Measurement Requirements/ Recommendations
IAS-34	Preparation of a statement showing either the changes in equity or the changes in equity other than those arising from capital transactions with owners and distributions to owners.

Specific Disclosure Requirements/ Recommendations

Standard	Disclosure Requirements/ Recommendations
IAS-2	Carrying amount of inventories carried at net realisable value.
	Disclosure of either the cost of inventories to be recognised as an expense during the period, or the operating costs applicable to revenues, to be recognised as an expense during the period, classified by their nature.
IAS-14	Combination of two or more internally reported business segments on geographical segments that are subsequently similar, as a single business segment or geographical segment is allowed.

	Disclosure of the fact and the amounts of revenue from sales to external customers and internal sales to other segments.
IAS-24	Disclosure in regard to related party.

It should be noted in this context that the above accounting practices recommended under the IFRSs are not required to be followed under the respective Indian Standards. Hence, an examination of the financial statements and additional disclosures of these Indian companies in the sample to investigate whether or not they have complied with these requirements/ recommendations of IFRSs in any way will lead to a further conclusion in regard to whether or not these companies are positively responding to IFRSs. In this context the annual reports of the respective companies for the year 2002-2003 were considered for analysis.

6.2.2 The results

Out of the 30 companies selected for the purpose of this study, annual reports could not be obtained for 10 companies, leaving a sample of 20 companies in total. The results of this survey can be given as follows:

Specific Measurement Requirements/ Recommendations

Standard	Requirement	No. Of companies
IAS-34	Preparation of a statement showing either the changes in equity or the changes in equity other than those arising from capital transactions with owners and distributions to owners.	0

Discussion: In regard to the preparation of a Statement of Changes in equity, none of these 20 companies prepares such statements

leading to the conclusion that these companies are not responding positively to this requirement of IFRS.

Specific Disclosure Requirements/ Recommendations

Standard	Requirements	No. Of Companies
IAS-2	Carrying amount of inventories carried at net realisable value.	0
	Disclosure of either the cost of inventories to be recognised as an expense during the period, or the operating costs applicable to revenues, to be recognised as an expense during the period, classified by their nature.	19
IAS-14	Combination of two or more internally reported business segments on geographical segments that are subsequently similar, as a single business segment or geographical segment is allowed.	0
	Disclosure of the fact and the amounts of revenue from sales to external customers and internal sales to other segments.	0
IAS-24	Disclosure in regard to related party.	20

Discussion: It is interesting to note that, though only one of these 20 companies reports its financials taking the IFRSs as the basis, most of these companies consider some IFRSs to be of significance to them. This is due to 19 companies disclosing the cost of inventories to be recognised as an expense and all of these 20

companies reporting related party disclosures though this is not mandatory for them in accordance with the Indian standard. In regard to examining whether the companies disclose the amounts of revenue from sales to external customers and internal sales to other segments, it has been found that companies do not provide such information under the segment information. However, some companies provide part or the whole of this information under the related party disclosure, which has not been taken into consideration in this regard, since the IAS-14 is in regard to segment reporting.

None of these 20 companies discloses the amount of inventories carried at net realisable value. Hence, it seems that Indian companies are not responding to this disclosure requirement positively.

6.3 Conclusion

Chemisa (2000) observed 'relevance' by means of examining whether or not a sample of companies complies with the IASC standards.

After examining the websites of the sample companies, it can be concluded that Indian companies do not voluntarily follow the IFRSs. However, some of the companies that are listed on a foreign stock exchange (s) prepare their financial statements in accordance with the US GAAP. This gives an indication that there is a relationship between foreign listings and the observance of the US GAAP. This might be to attract investors, or due to mandatory requirements of listing their securities in foreign stock exchange(s). However, this number is non-significant as well.

Only one of the companies, which do not have any foreign listings, prepares its financial statements in accordance with the US GAAP, and none of the companies not having foreign listing prepares its financial statements in accordance with the IFRSs.

The above facts suggest that the IFRSs are not popular among Indian companies. However, Indian companies follow some of the disclosure requirements of IFRSs that are allowed, but not mandatory under the Indian standard, such as in regard to related party disclosure and in regard to inventories. Hence, in regard to disclosure requirements of Indian companies it seems that these top companies go beyond the Indian standards in some cases.

The listing status of these 20 companies whose annual reports were examined in detail was investigated. This gave the result that 11 (55%) out of these 20 companies have foreign listing of shares. Hence, no strong association of foreign listing status and the observance of these specific requirements/recommendations of IFRSs have been found. However, it can be suggested that the ASB of the ICAI should seek more input from industries while framing the accounting standards since it seems that Indian companies are positively responding to some of the disclosure requirements/recommendations of IFRSs. The limitation of the conclusion rests upon the limited number of companies surveyed. The results might vary if a different sample is selected.

Finally, the 14 companies having foreign listing(s) but not reporting in any foreign GAAP might report in foreign GAAP with a view to fulfilling their listing requirements, but do not include them in annual reports, which might be due to the fact that although they do not perceive these foreign standards to be suitable to them, they have to comply with these foreign GAAP as they are mandatory for them.

CHAPTER SEVEN
THE ADAPTATION OF IFRSs IN INDIA- AN INSTITUTIONAL THEORY
PERSPECTIVE

7.0 Introduction

The process and reasons behind the adaptation of the IASC standards by the ICAI can be illustrated with the help of the institutional theory developed by DiMaggio and Powell (1983).

7.1 The Theory and its application

Di Maggio and Powell (1983) argue that structural change in organisations seems less and less driven by competition or by the requirement of efficiency. Instead, bureaucratisation and other forms of organisational change occur as the result of processes that make organisations more similar without necessarily making them more efficient.

In regard to India, the impetus behind the setting of accounting standards have come from external influences, such as the IASC, rather than from within the Indian accounting establishment (Banerjee, Marteens, and McEnroe, 1998). This leads to further doubt in regard to whether the Indian companies have become more efficient with the adoption of IFRSs since there were initially no pressures on the part of the industry to adapt the IFRSs. Companies can become more efficient if the accounting system provides accurate information about their performance and position in a transparent manner. For example, then they will be able to attract more investors, an indication of being efficient. The question is whether Indian accounting standards are better suited to provide such information compared to the IFRSs.

The ICAI actively promotes the pronouncements by the IASB with a view to facilitating global harmonisation of accounting standards (www.icaai.org). Hence, the aim of the ICAI, and hence the

ASB, is to promote international harmonisation of accounting standards rather than making more efficient accounting standards for Indian companies.

Di Maggio and Powell (1983) describe the process of homogenisation of organisations and new entrants as well, once the field has been established, by the concept of 'isomorphism.' In this context, Hawley (1968) refers to 'isomorphism' as a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions (cited in DiMaggio and Powell, 1983).

Di Maggio and Powell (1983) identify three mechanisms through which institutional isomorphic change takes place, each with its own antecedents, as follows:

7.1.1 Coercive isomorphism

Coercive isomorphism stems from both formal and informal pressures exerted on organisations by other organisations upon which they are dependent, and by cultural expectations in the society within which organisations operate. Such pressures may be as a result of force, persuasion, or as invitations to join in collusion (Di Maggio and Powell, 1983).

In the context of the present study, coercive isomorphism takes place in the form of external and internal influences on the Indian accounting profession and the GOI to adapt the IFRSs, together with the pressures exerted by the GOI and the ICAI on business organisations to follow ASs, which are based on IFRSs. This can be explained as follows:

External pressures: External pressures arise from organisations/bodies outside the country.

The GOI has followed the principle of mixed economy since 1951, which refers to the existence of both the private and public sector. It was perceived that the growth rate of the economy could be increased by nationalising some of the industrial, banking and insurance units and setting up new units in the public sector. Hence, the public sector has become an essential part of the process of the planned economic development of India. However, the idea of 'privatisation' came into India only in the 1980s after the British Government succeeded with the experiment in the mid 1980s (Mukherjee and Mukherjee, 1998). From the mid 1980s the Indian companies have been experiencing a metamorphosis. India started to open up its economy to the world (Banerjee, 2002a).

The 'company' form of business organisation and the diverse forms of financial reporting and speculative measures followed by companies, led the GOI to the establishment of the ASB in 1977. However, the consideration of the IASC standards by the ASB in the time of formulating standards has probably resulted from the opening up of the economy by the GOI.

Despite the open economic policies introduced in the mid-1980s, there occurred insignificant foreign investment until the 1990s. From July 1991 policies in regard to industries and investment have become gradually simpler, more liberal and more transparent (Arun and Turner, 2002). While the inflow of foreign investment was Rs2 billion in 1990-91, it reached a figure of Rs 344.4 billion in 1997-98 (refer to Appendix-6 for details). This policy was probably taken by the GOI with a view to improving its B.O.P. position, as the B.O.P of the year 1990-1991 was – Rs44.7 billion. The fact of further opening up of

the economy by the GOI most likely led the ICAI to make its standards mandatory from the year 1991. This has probably pressurised the GOI to form the SEBI in the year 1992 for the purpose of protecting the interest of investors and to facilitate the development of the securities market.

One of the main pressures falling on the ICAI, after opening up of the Indian economy in regard to moving towards the IFRSs is to satisfy foreign investment. This is evident from the study of Iyer (2001) as he opines that, it is clear from the evidence that the ICAI is moving rapidly to bring Indian accounting on a par with the rest of the developed countries, with a view to making it more acceptable for analysis by foreign investors and analysts. India has increased sharply the approvals of FDI since the introduction of reforms in July 1991. More than US\$ 6.7 billion in FDI was approved in 1999. The U.S. continues to be an important source of foreign direct investment in India, accounting for 12.6 percent of investments.

There were pressures from the WTO, the IMF and the market as the political power of India has indirectly gone into the hands of these organisations, since the matter of formulation of policies has already gone into the hands of the WTO, the IMF and the market (Thapar, 2001). The dependence of India on the WTO can be best evidenced from the withdrawal of restrictions on foreign banks in response to the commitments in the WTO under the General Agreement on Trade in Services (Arun and Turner, 2002). The World Bank's SAL/ SAC (Structural adjustment loan/ credit) operation among the three operations had a large impact on the development of the financial sector, as its aim was to remove microeconomic distortions in the economy. A new accounting system was introduced together with the dismantling of the controls on interest rate (Khatkhate, 2002). The

influence of the World Bank in the economic reforms of India can be best understood from the in-depth analytical work done by the bank prior to 1991 on India's trade regime, foreign exchange regulation, industrial policy and financial sector which focussed on the significant issues that were preventing India's economic growth (Khatkhate, 2002).

The World Bank has raised considerable concerns together with the development community and stakeholders in regard to public financial accountability. A conference in 1998 on governance and accountability, bank documents and external literature all emphasise the deterioration and key gaps in public financial accountability (Sahgal and Chakrapani, 2002). The World Bank has also addressed the issues of governance and financial accountability in the bank's draft Comprehensive Development Review (FY100) (Sahgal and Chakrapani, 2002).

The ASB of the ICAI started to issue mandatory standards only in 1991, which can again be attributed to the fact of the changing economic policy of the GOI. This is due to policies in regard to industries and investments have become gradually simpler, more liberal and more transparent from July 1991.

Hence, it can be concluded that the pressures coming from the international donor agencies, such as the World Bank and IMF together with the WTO have led India to improve its accounting system to an internationally acceptable level resulting in the adaptation of IFRSs.

Internal pressures: Internal pressures arise from organisations/ bodies within the country.

There is clear evidence of institutional pressure arising within India. Narayanswamy (1997) suggests that after the economic reforms, India is rated as an emerging economic giant. The rise of India as a favoured destination for foreign investment has led to the increase of interest in its accounting system. Narayanswamy (1997) states that the code of corporate governance that has been issued by the confederation of Indian industry stresses the need to enhance the standards of Indian financial reporting to internationally acceptable levels.

The Preamble to the Constitution of India promises all Indian citizens economic justice. All forms of regulation in regard to accounting in India seem to have derived their basis from this provision. The Companies Act 1956 provides the basic rules and guidelines in regard to the preparation of financial statements and their disclosure, such as the information to be disclosed in the Profit & Loss Account and the form of Balance Sheet in regard to the disclosure of the assets and liabilities of a corporate body (Banerjee, 2002a). The accounting regulation by Government with the help of its agents was necessitated during the 1960s when the system of financial reporting began to be criticised on the grounds of the lack of uniformity in the practice of accounting resulting in difficulty in comparing different companies. The essential characteristic of any standards system is its enforcement; there thus appeared the requirement for accounting regulation either through the government, or by the accountancy profession, or by a private body (Banerjee, 2002a). The attempt towards regulation for harmonisation of accounting practices has transcended the national boundaries and thus international agencies,

such as the IASC, the IFAC and the European Economic Community were formed (Banerjee, 2002a). Every democratic government has an objective of maximizing the welfare of the society (Banerjee, 2002a). Hence, to fulfil this objective, the ICAI has formed the ASB with a view to respond to the requirements of uniform standards by the society, and hence to fulfil the demands imposed on the GOI.

Another significant internal pressure arose from the capital market regulator of India (SEBI). The SEBI is of the view that with the passage of time, as the Indian economy becomes open, it is expected that the activity of foreign companies in India will increase and hence the authority is keen to align Indian accounting standards in line with the international practice. As a result, the ICAI issued admittedly under pressure from SEBI, 12 standards on many significant areas in a period of two years from April 2000 (Banerjee, 2002a). The SEBI was insisting that ICAI should formulate accounting standards for segment reporting "*as quickly as possible*" (*Economic Times*, August 5, 1999 cited in Banerjee, 2002a, p.140). Hence, the ICAI issued AS-17 on segment reporting in October 2000, to make it mandatory for specified enterprises in regard to accounting periods starting on or after 1.4.2001. AS-17 is in line with IAS-14 in many respects (Banerjee, 2002a).

All these give an indication that the adaptation of the IASs and/or the IFRSs was a quick fix measure taken by the ASB of the ICAI, partly due to internal pressures.

Pressures on business organisations to follow the ICAI standards: The ICAI is the sole authority to set standards in India. The Institute issued its first standard in November 1979. Since then a lot of accounting standards have been issued by the ICAI from time to time. Initially all

the standards were recommendatory in nature. Gradually, as the awareness among users of financial statements and members of the Institute increased, about the utility of accounting standards and the need for compliance with these standards while preparing financial statements, steps were taken to make them mandatory (Banerjee, 2002a). However, in recent years, most of the standards are given 'mandatory' status more-or-less immediately after approval by the ICAI, such as in the case of AS16: Borrowing costs, in regard to those enterprises whose turnover reaches a certain minimum. There are, however, some standards that are partially voluntary to be followed, such as AS 27: Financial Reporting of Interests in Joint Ventures. This standard is mandatory in respect to accounting periods commencing on or after 1.4.2002 in regard to separate financial statements of an enterprise. This standard is mandatory in regard to consolidated financial statements in respect of those enterprises that prepare such statements only.

Companies are bound to follow the standards pronounced by the ICAI as the Companies Act requires compliance with mandatory accounting standards issued by the ICAI.

7.1.2 Mimetic processes

Institutional isomorphism may also occur from uncertainty. When organisational technologies are poorly understood (March and Olsen, 1976, cited in Di Maggio and Powell, 1983), when goals are ambiguous, or when a Government creates symbolic uncertainty, organisations may take the model of other organisations.

"Organizations tend to model themselves after similar organizations in their field that they perceive to be more legitimate or successful" (Di Maggio and Powell, 1983, p.152).

Prior to the 1980s most of the Indian companies used to publish the legally required minimum financial statements in the time of reporting. They concealed many facts and figures from the users. Some of the companies violated the provisions of the law as well. On the other hand, there were some companies such as the ITC Limited, Hindustan Lever Limited and the Tata Group of companies, who reported more than the minimum requirements and used to try to report the maximum possible information in an easy way (Dasgupta, 1977, cited in Banerjee, 2002a). This indicates that diverse accounting practices were followed by various companies in India at that time. However, the fact of speculation by joint stock companies has been brought to the attention of the Government by various authorities.

In this environment of uncertainty, when the need for more accounting standards was stressed by various authorities, such as the Register of Joint Stock Companies, the ASB of the ICAI was formed in 1977. The principal objective of the ICAI is to narrow down as far as possible the diverse accounting policies and practices adopted by various enterprises that used to lead to varying assessments for the same operating result in India (Banerjee, 2002a).

7.1.3 Normative pressures

Normative isomorphism takes place as a result of professionalisation (Di Maggio and Powell, 1983). In this regard, Larsen (1977) and Collins (1979) refer to 'professionalisation' as the collective struggle of members of an occupation to define the methods and conditions of their work, to control "*the production of producers*" (Larsen, 1977, pp. 49-52, cited in Di Maggio and Powell, 1983, p.152), and to establish a cognitive base and legitimation for their occupational autonomy (cited in Di Maggio and Powell, 1983).

Two aspects of professionalisation are significant sources of isomorphism. One is the resting of formal education and of legitimation in a cognitive base produced by university specialists; the second is the growth and elaboration of professional networks that span organisations and across which new models diffuse rapidly (Di Maggio and Powell, 1983).

The principal motivation for accounting standards setting in India have come from external influences such as the IASC, rather than from within the Indian accounting establishment (Banerjee et al., 1998).

The establishment of the IASC (now IASB) in 1973 united the accounting profession worldwide. In 1998, G7 finance Ministers and central bank Governors committed to promoting private sector enterprises in their countries to comply with internationally agreed principles, conduct and codes of best practice. They asked all the countries, which participate in global capital markets similarly to comply with these internationally agreed codes and standards (www.iasb.org).

The IASB is promoting the convergence of accounting standards throughout the world, and has been successful in getting its standards accepted in the IOSCO. After an assessment of International Accounting Standards made in 2000 by the technical committee of the IOSCO, the presidents' committee of that organisation approved a resolution recommending its members to permit incoming multinational issuers to use these standards to prepare their financial statements for cross-border offerings and listings (www.iasb.org).

An IASB member is resident as a liaison in their respective jurisdiction in each of the seven countries in the focus group, namely, Australia and New Zealand, Canada, France, Germany, Japan, the U.K.

and lastly, the U.S. The constitution of the IASB envisages a partnership between the IASB and these national bodies as they work together to achieve the convergence of accounting standards throughout the world (www.iasb.org).

In this era when all of the major countries are promoting harmonisation and later on convergence of accounting standards throughout the world, it seems that India could not keep itself away from the pressure of the accounting profession internationally. India succumbed to the pressure by becoming a member of the IASC. The ICAI created the ASB to formulate accounting standards in 1977. The ASB's policy is to take IFRSs into consideration while formulating ASs.

7.2 Conclusion

Di Maggio and Powel (1983) through their institutional theory try to understand the reasons behind such surprising homogeneity of organisational forms and practices. They reveal that initially organisational fields show considerable diversity in approach and form. However, once a field becomes established, there is a thrust towards homogenisation.

This situation seems to be true for the Indian accounting scenario as well. This is due to when the IASB became a dominant accounting body throughout the world, the ICAI started to pronounce Indian accounting standards by taking the IFRSs as the basis. Hence, the institutional theory by Di Maggio and Powell (1983) clearly fits into the Indian scenario. The objective of the ASB of the ICAI is to promote pronouncements by the IASB in order to facilitate global harmonisation of accounting standards (www.icai.org).

Finally, it can be concluded that the decision by India to consider IFRSs originated mainly from the pressures from international

donor agencies, such as the World Bank together with the IMF and the capital market. Also uncertainties at the time of opening up of the Indian economy in regard to accounting standards, created immense pressure on India to consider the adoption of IFRSs. Last but not least, pressure came from the accounting profession to adopt the IFRSs as several developed countries of the world started to consider the adoption of IFRSs as well.

CHAPTER EIGHT

ANALYSIS AND DISCUSSION

8.0 Introduction

The purpose of this research has been to explain the rationale behind the change in accounting regulation in India. Chapter two identifies those concerns shown by various authors in regard to international harmonisation of accounting standards with special reference to developing countries. Chapter three investigates the change of emphasis of the IASC (now IASB) from harmonisation to convergence of accounting standards, and hence the significance of selecting the topic of this research. Chapter four explains the country profile of India by taking the model proposed by Gernon and Wallace (1995) as the base. In order to understand the rationale behind the changes in accounting regulation in India, an understanding of the country profile of India is significant, as accounting institutions and practices should be related to their respective environment (Gernon and Wallace, 1995). Chapter five identifies the similarities and differences between the IFRSs and ASs thus describing the approach taken by India while adapting IFRSs. Chapter six reveals the result of a survey of annual reports of a sample of Indian companies and hence suggests that Indian companies do not voluntarily follow the measurement requirements of IFRSs. However, some of these companies voluntarily follow specific disclosure requirements of IFRSs, such as disclosures in regard to related party and the disclosure of the cost of inventories to be recognised as an expense during the period. Hence, it can be stated that Indian companies are not responding positively to the measurement requirements of IFRSs. However, their response to specific disclosure requirements of IFRSs is positive. Chapter seven discusses those factors that influenced the decision of

India to adapt IFRSs and hence identifies the pressures coming from various parties, such as foreign investors and analysts, the WTO, IMF, the market and the World Bank together with internal pressures from the SEBI, as major influencing factors. The following sections will provide some understanding of the rationale behind the change in accounting regulation in India, focussing on the formulation of accounting standards.

8.1 Rationale behind the change in accounting regulation in India by taking the accounting values of the country into consideration

The IASB efforts are dominated by the Anglo-American model (Chand, 2001).

In the Anglo-American model, the accounting values include a preference for independent professional judgement as opposed to statutory control. This is consistent with the cultural value of individualism (Mueller, Gernon and Meek, 1997, cited in Chand, 2001). On the other hand, there is less preference for professionalism in India as the power distance is high and individualism is low. Hence, IASB standards may not be culturally appropriate to India. However, the ICAI has adopted only the benchmark treatment of the IASC in most cases, and reduced most of the alternative treatments, such as in the case of AS-2: Valuation of inventories. The Indian standard (AS-2) does not allow the use of the LIFO formula, while in the case of IAS-2: Inventories, the LIFO method is allowed as an alternative treatment. Similarly, in the case of AS-5: Net profit or loss for the period, prior period items and changes in accounting policies, the standard requires the consideration of extraordinary items and the effects of changes in accounting estimates and policies to be recognised in the

determination of the net profit or loss for the period, while this is only the allowed alternative under the IAS-8: Net profit or loss for the period, fundamental errors and changes in accounting policies. These types of change made by the ASB of the ICAI to the IASC standards considering the local customs and usages of India can be explained by the Indian cultural features of low individualism and high power distance resulting in the need for more statutory control. Hence, the ICAI has adopted only the benchmark treatment of IFRSs not allowing many alternatives due to the low preference for professionalism as an accounting value in India.

On the other hand, in some cases, while the IASC standard gives clear guidance in regard to accounting/disclosure for an event, the ASB of the ICAI does not give clear guidance, resulting in leaving those accounting/ disclosures to the professional judgement of auditors, such as in the case of AS-3: Cash Flow Statements. The Indian standard (AS-3) does not give any guidance in regard to the reporting of the interest of an enterprise in a jointly controlled entity, though the IAS-7: Cash Flow Statements, gives clear guidance in this regard. Hence, in this case it seems that the original IASC standard is more appropriate than the IASC based Indian standard, if the culture of India is taken into consideration. This is because India should be supplied with more definite accounting standards and guidance, that is, more statutory control, if the culture of the country is taken into consideration, rather than leaving the decision to the professional judgement of accountants and auditors.

The second set of accounting values which influences financial reporting is uniformity versus flexibility (Chand, 2001). While a society that values uniformity shows a preference for the enforcement of uniform accounting practices, a society that values flexibility considers

the individual company circumstances. The IASs are formulated on the basis of flexibility as they allow for a choice of methods in their standards (Chand, 2001). On the other hand, as the culture of India is characterised by high power distance, the country has a high preference for uniform accounting standards. Hence, the IASC standards may not be appropriate to the Indian environment, if the culture of India is taken into consideration. However, to suit the local culture of India, the ASB of the ICAI has made some of the Indian standards more specific than under the IASs while adapting them for India, such as in the case of AS-18: Related party disclosures, the 'significant influence' has been defined specifically as, if an enterprise has 20 percent or more interest in the voting power of the other enterprise, it should be interpreted as significant influence. On the other hand, the corresponding IAS-24: Related party disclosure does not specify such percentage. Hence, it can be stated that while some of the original IASC standards may not satisfy the accounting value of uniformity for the Indian environment as it gives preference to flexibility, the ASB of the ICAI has made an effort to adapt the IASC standards into the local condition of India by making them uniform.

The Anglo-American model of accounting is based on a more optimistic approach to measurement, and hence it can be opined that the IASs are also based on the same approach (Chand, 2001). Similarly, India ranks low on conservatism. This is because of the cultural value of low 'uncertainty-avoidance' of India. Hence, in this respect the accounting value of the Anglo-American model matches with the Indian accounting value.

Lastly, the Anglo-American model of accounting takes a more publicly accountable approach to financial reporting and discloses more information, in response to the providers of capital-private

investors (Chand, 2001), and hence IASs are influenced by this accounting value. On the other hand, India ranks high on 'secrecy' due to the cultural value of high power distance. Thus, it can be opined that the IASs may not have a smooth run in India. Indian companies do not reveal much information voluntarily. The study conducted by Banerjee (2002a) reveals that while all the 50 companies in his sample comply with the regulatory measures and legislative provisions and hence disclose all the information that is mandatory for them in their annual reports of 2000-2001, only few companies reveal voluntary information, such as in regard to social accounts, Economic Value Added (EVA) and information on human resources. However, it can be stated that, to suit the local Indian custom, the ICAI has reduced the disclosure requirements in regard to some standards in comparison to those of the corresponding IASC standard, such as in the case of 'Net profit or loss for the period, prior period items, fundamental errors and changes in accounting policies' as the disclosure requirements of AS-5 in regard to 'fundamental errors' is less than that of the corresponding IAS-8. On the other hand, disclosure requirements of the Indian standard in regard to 'Related party disclosures' are more than those of the corresponding IASC standard in some contexts (refer to pp. 108-109 in Ch: 5). The reason for changing the original IASC standard by the ICAI in the case of 'Related party disclosures' in this way cannot be explained, by taking the accounting value of 'secrecy' in India into consideration. This is due to the enhancement in disclosure requirements bought by the ICAI to the IAS-8, while adapting it to the Indian situation.

Finally, it can be stated that though the Indian accounting system is influenced by the British pattern (Narayanswamy, 1997) due to its historical link with British rule in India (Iyer, 2001), the societal

values of India are different from those of the UK in most cases. Hence, IASC standards may not have a smooth run in India. However, it seems that the ICAI is considering the local customs and usages while adapting the IASC standards in the Indian context.

8.2 Acceptance of IASB standards by Indian companies

The survey of 42 Indian companies reveals that while only one company reports its financials voluntarily in accordance with IFRSs, six companies prepare their financials in accordance with the US GAAP (refer to Ch: 6). It is significant to note in this regard that 5 out of 19 Indian companies having foreign listings prepare their financials in accordance with the US GAAP. Hence, it can be opined that the Indian companies listed on the foreign stock exchange(s) respond more positively to the US GAAP than IFRSs.

The survey of annual reports for the year 2002-2003 for 20 Indian companies with a view to examining whether they voluntarily follow some of the measurement and/or disclosure requirements of IFRSs (see Chapter-6 for the checklist of items) gives the result that most of these companies disclose the cost of inventories to be recognised as an expense during the period, and all of these companies disclose information about related parties though they are not required to be disclosed under Indian standards. This gives an indication that Indian companies perceive some of the disclosure requirements of IFRSs to be suitable to them, and hence go beyond the mandatory disclosure requirements of Indian standards.

The results of a survey conducted by Banerjee (2002a) reveal that all of the companies in his sample comply with the mandatory requirements of the Companies Act and accounting standards issued by the ICAI together with other legislative provisions. On the other

hand, the ICAI adapts the IASC standards in accordance with the local customs and usages of India to frame its standards. Hence, Indian companies are bound to comply with these IFRSs based Indian standards formulated by the ICAI as they are mandatory to them as per the Companies Act.

8.3 Overall summary and the explanation of the rationale behind the change in accounting regulation in India

The explanation of the rationale behind the change in accounting regulation in India, with particular emphasis on the formulation of accounting standards, seems to be significant at the present moment especially due to the shift of emphasis of the IASC (now the IASB) from harmonisation to convergence of accounting standards. This is because allowed alternative treatments of IFRSs have reduced significantly in recent years and it seems that they will be reduced further in the near future. Hence, a country that takes the policy of adopting the IFRSs will have to agree fully with the accounting treatments of the IFRSs leaving its own country's accounting standards (if they are not already in conformity with the IFRSs). This raises the question of the rationale behind the change in accounting regulation in India to adapt IFRSs.

The fast rate of issuing ASs by the ASB, for example, 12 new standards in two years, raises considerable doubt as to whether ample time has been given to the public at large to comment on the exposure drafts of these standards, and hence whether the adaptation of IFRSs in India is a well thought decision. The comparison of the IFRSs with the Indian accounting standards shows that in most cases the Indian standard conforms to the corresponding IFRS. On the other hand, the survey of annual reports of a sample of Indian companies suggests

that, these companies are not positively responding to IFRSs. This fact again raises the question of whether Indian companies perceive the IFRSs as appropriate to them.

There seem to be significant pressures on India in regard to the adaptation of the IFRSs. These pressures were created by foreign investors and analysts, the WTO, IMF and the market, the World Bank together with the SEBI and so on. Pressures also came from the accounting profession. This has resulted in India's having adapted the IFRSs from 1977.

All of the above findings suggest that India has decided to adapt the IFRSs due to the pressures from various parties rather than perceiving IFRSs to have positive impacts. Hence, the IFRSs might not have a smooth run in India. The IASC (now IASB) has no power of enforcement and hence its acceptance depends not only on the accounting profession, but also on the outlook of government regulatory agencies (Banerjee, 2002a). The ICAI is not a regulatory body and hence cannot mandate accounting standards on its own. An accounting standard that is mandatory requires auditors who are members of the ICAI to qualify their audit reports if the standard has not been followed, failing which they will be guilty of professional misconduct. However, preparers of financial statements were not bound to conform to these mandatory accounting standards. SEBI and the Indian Companies Act have of late made the implementation of accounting standards by preparers of financial statements compulsory, for listed companies and the entire corporate sector respectively (D'Souza, 2002). Hence, it seems that the companies are bound to follow IFRSs-based Indian standards.

It also seems from the examination of the annual reports of 20 companies (see, Chapter 6) that some of the disclosure requirements

of the IFRSs that are not required under the Indian standards are popular among Indian companies. Hence, the ICAI should try to get more feedback from industries while setting its accounting standards, as the response from industries to exposure drafts of ASs is poor (D'Souza, 2002).

CHAPTER NINE: CONCLUSION

9.0 Introduction

The present project gains its significance from the concerns shown in previous literature in regard to the adoption of IFRSs in developing countries (see, Chand, 2001) and a shift of emphasis from harmonisation to convergence of accounting standards by the IASC (now IASB). The project, following a discussion of its significance at the present moment, discusses the country profile of India, compares the IFRSs and ASs, and provides a survey of annual reports of companies. This has been followed by the discussion of influencing factors behind the policy of adaptation of the IFRSs by the ICAI that leads to the achievement of the aim of the research, that is, the rationale behind the change in accounting regulation in India, focussing on the formulation of accounting standards.

9.1 Discussion

The aim of this study has been to investigate the rationale behind the change in accounting regulation in India, emphasising the formulation of accounting standards. It has been achieved by fulfilling the five objectives of the research. The first objective is a thorough literature review, focusing on international harmonisation with special emphasis on developing countries, followed by a discussion of the pros and cons of convergence. This has been achieved in chapters two and three respectively, with the discussion of previous literature in regard to international harmonisation in Chapter two and the discussion of advantages and disadvantages of convergence together with the discussion of the issue of a shift from 'harmonisation' to 'convergence' in Chapter three. These two chapters, by fulfilling the objective, set

the world scenario in which the present project seems to be of considerable significance.

Country-based studies in regard to international harmonisation of accounting have been classified into de facto and de jure harmonisation studies. Several authors have shown their concern in regard to the adoption of the IASs by developing countries. For example, Chand (2001), by taking the case of Fiji, reveals the difficulties in regard to the use of IASs for preparing financial reports as opined by interviewees, such as administrative difficulties and technical problems, problems in regard to standards that are not specific and costs associated with the use of the IASs. Similarly, Larsen and Kenny (1995) suggest that there is no major association between the development of the equity market of developing countries and their economic growth, with the adoption of IASs. Instead, they suggest a negative association when IASs are adopted. These studies raise the question of the rationale behind the IFRSs based Indian standards to India, being a developing country. Studies in the context of accounting standards/practices in India do not seem to be extensive and mainly deal with the differences between accounting standards/practices between India and those of other countries and/or the IFRSs (Bir, 1998; Iyer, 2001; Narayanswamy, 1997). However recently, Ali et al. (2003) have conducted a de facto compliance study of 500 companies listed on the Bombay stock exchange with 15 selected IASs. These studies partly provided the motivation for undertaking this project.

Chapter three describes the shift of emphasis from harmonisation of accounting standards to setting a single set of high quality accounting standards (convergence of accounting standards) with the formation of the IASB after the restructuring of the IASC.

The main benefits of harmonisation as revealed in various studies are the low cost of preparation of financial information for international operators, and the acceptance of IASC standards internationally which help in attracting foreign investors. On the other hand, principal arguments cited by various authors against harmonisation and/or convergence have been environmental differences and institutional factors. In this regard, Chand (2001) advises developing countries to get together and develop standards rather than following the IASs. Arguments cited by various authors (Choi, 1981; Nobes, 1998) against harmonisation and/or convergence of accounting standards raise further doubt as to whether IFRSs will have a smooth run in the Indian context, and lead to the question of the rationale behind the change in accounting regulation in India that includes the adaptation of IFRSs. In this context, Perera (1989) holds considerable significance, as the author suggests that the Anglo-American/ Western style of accounting practices may be irrelevant to developing countries. Perera (1989) also questions the relevance of developed countries' accounting standards to developing countries. In this context, it is significant to note that the IASC is dominated by the Anglo-American lobby (Chand, 2001; Flower, 1997) and the IASC has a partial attitude to developed countries as well (Chamisa, 2000; Chand, 2001). A serious concern shown in the discussion paper 'Shaping IASC for the future' (IASC, December, 1998) is the limitation of resources of the IASC to meet the needs of developing countries and hence it is expected that the representation of developing countries compared to developed countries will also be minimal in future years. It is noteworthy that none of the 14 board members of the IASB represents any developing country (www.iasb.org.uk). Hence, the rationale behind the change in accounting regulation in India needs to be investigated.

The second objective of the research has been to explain the country profile of India and its relation to the accounting environment of the country, using the framework proposed by Gernon and Wallace (1995). This objective has been fulfilled in chapter four with the discussion of different environments of India by taking the framework of Gernon and Wallace (1995) as the basis. Information has been obtained for each of these environments from existing literature in regard to India. The country profile of India has been considered relevant to this study, since accounting institutions and practices should be related to their respective environments (Gernon and Wallace, 1995). Using this model helps in establishing the relationship between the five slices of the environment, that is, the societal environment, organisational environment, professional environment, individual environment and accounting environment, and their influences on accounting in India.

The societal environment comprises both cultural and non-cultural elements. The cultural environment of India is characterised by high power-distance, low individualism, medium masculinity and low uncertainty-avoidance. This leads the country to have low professionalism, high uniformity, low conservatism and high secrecy as accounting values, taking the model proposed by Gray (1988) linking cultural values and accounting values as the basis. The non-cultural element is comprised of demographic and structural elements. India is a densely populated country where the majority of the population believes in Hinduism. The caste system of Hinduism in India has led the country to have high power distance. It seems that the ICAI does not provide ample time for the public to respond to exposure drafts of ASs and it is mainly influenced by the SEBI (Banerjee, 2002a). The second non-cultural element consists of structural elements, such as

economic changes. The change in the economy of India from protective to competitive end has led India to align its accounting standards with the IFRSs with a view to attracting more foreign investment. This has led India to issue mandatory accounting standards based on the IFRSs only from 1991.

The organisational environment of India has been characterised by a mixed economy since 1951, which refers to the existence of both private and public sectors (Mukherjee and Mukherjee, 1998). A direct link between the organisational environment of India and the accounting environment can be seen in the fact that the ASB of the ICAI started to issue mandatory standards only in 1991, which is the same year as the liberalisation of the economy by the GOI and hence the promotion of the private sector. During 1993-97, actual inflows of FDI have increased more rapidly than approvals, rising at the rate of 80% per year in terms of the US\$ ("Falling Interest," 2002). This increase of FDI has further necessitated the use of internationally accepted accounting practices, leading to a quick adaptation of the IFRSs.

The professional environment of India can be discussed in regard to companies' legislation, the stock exchange listing requirements and ASs. The companies' legislation in India had its origin under British rule in India. This has probably made the IASB standards more acceptable to India as one of the principal members of the IASB is the UK. However, it also seems that the professional environment of India has been significantly influenced by the USA as well recently, as the SEBI was formed in 1992 with the same structure as the SEC. This influence of the USA has probably led India to consider the IASB standards as well, since the USA is having a strong influence on the activities of the IASB.

The individual environment of India is characterised by large power-distance due to the beliefs of Hinduism. Though everyone has an equal right to comment on the exposure drafts issued by the ASB, it does not seem that the ASB provides ample time for people to respond to these exposure drafts. Also the participation of industry is poor (D'Souza, 2002). There are significant pressures from the SEBI on the ICAI, as the ICAI issued 12 standards on various significant areas in a period of two years from April 2000, due to the pressure from the SEBI (Banerjee, 2002a). This might be due to the power-distance feature of the individual environment of India and it is probable that the SEBI possesses considerable power to influence the ASB of the ICAI.

The accounting environment of India is featured by the British pattern of accounting system and legal system. The ASB has started to pronounce mandatory standards only in recent times in the spirit of international harmonisation of accounting standards. India is trying to bring its accounting standards closer to the IFRSs subject to local laws, customs and business norms due to the deregulation of the economy in 1991, to attract foreign investments.

The third objective of the project has been to describe the approach taken by India while changing its accounting regulation. This has been fulfilled in chapter five by comparing a sample of 16 Indian ASs as at July 2002 with the IASs as in 2002, and in some cases 1995. This helps to determine exactly the rate of change made by the ASB of the ICAI to IFRSs. The chapter gives a mixed result, since the comparison suggests that in some cases the Indian standards require more disclosure than the corresponding IAS and vice versa. However, in most cases Indian standards are more specific than IASs, such as in regard to 'related party disclosures.' It is also significant to note here

that whereas the IASs allow alternative treatments, the Indian standard allows only one treatment of the corresponding IASs, such as in regard to the 'valuation of inventories' where the Indian standard does not allow the use of the LIFO method, it is allowed under the corresponding IAS. The finding of Ali et al. (2003) that 15 IASs have been fully adopted by India seems to be different from the finding of the present study. The present study finds that there are considerable differences between the IASs and ASs in regard to inventories; Cash Flow Statements; net profit or loss for the period, prior period items, fundamental errors and changes in accounting policies; borrowing costs; accounting for leases; Consolidated Financial Statements; accounting for investments in associates.

An attempt has been made in chapter eight to explain the changes made by the ICAI to the IFRSs as revealed in chapter five, by taking accounting values of the country into consideration. It gives us a mixed result. An example of this is the fact that the ICAI has mainly adopted the benchmark treatment of the IASC in most cases and reduced the alternative treatments, such as in regard to 'valuation of inventories,' which can be explained as a preference for more statutory control. However, in some cases, e.g. Cash Flow Statements, the changes made by the ICAI to the IASC standard could not be explained by culture and hence the accounting values of India. It seems that the ICAI is not guided by the accounting values of India only, but influenced by the pressures of some institutions as well.

The fourth objective of the study is to identify the response of Indian companies to IFRSs. This has been achieved in chapter six by performing a survey of annual reports of Indian companies, to get an indication of the voluntary compliance of Indian companies with IFRSs. The results show that the Indian companies do not voluntarily follow

the measurement requirements of IFRSs. This suggests that they are not positively responding to IFRSs. However, Indian companies voluntarily follow some of the disclosure requirements of IFRSs and hence are positively responding to these disclosure requirements. This suggests that the ASB should try to get more comments and input from the industry so that the ASB can include these disclosure requirements under ASs.

The last objective of the research has been to discuss the influencing factors behind the decision to adapt the IFRSs. This objective has been achieved in chapter seven, by adopting the institutional theory by Di Maggio and Powell (1983) as the basis for analysis. Institutional theory provides an excellent basis for investigating the internal and external influences/ pressures that lead organisations to be more similar rather than making them more efficient. Di Maggio and Powell (1983) reveal that organisational fields show considerable diversity in approach and form at the initial stage. However, once a field becomes established, there is a pressure towards homogenisation. This is true for the Indian accounting scenario as well, since when the IASB became a dominant body throughout the world, the ICAI started to pronounce Indian accounting standards by taking IFRSs as the basis. However, this chapter finds that external pressures on India to adapt IFRSs came mainly from international donor agencies, such as the World Bank together with the IMF, WTO and the capital market. Internal pressures came mainly from the SEBI. However, uncertainties at the time of opening up of the Indian economy in regard to accounting standards also created immense pressure to adapt IFRSs. Lastly, normative pressures principally stem from the accounting profession as several developed countries of the world started to consider the adoption of IFRSs.

9.2 Conclusion

The aim of the project, that is, to explain the rationale behind the change in accounting regulation in India focussing on the formulation of accounting standards has been achieved by the fulfilment of its underlying objectives. In conclusion it can be stated that the decision of adapting the IFRSs by the ICAI can be traced to the fact that India desperately needed further guidance in regard to financial reporting. It was initiated by the idea of 'privatisation' in the 1980s and the opening up of the Indian economy due to a huge deficit in the B.O.P. Hence, it can be opined that the adaptation of IFRSs in Indian context was a quick fix procedure followed by the GOI rather than considering whether these standards will have a smooth run in India. One of the influencing factors was the capital market regulator of India, that is, the SEBI. There seems to be considerable pressure from various institutions as the modifications done by the ICAI to the IASB standards cannot be explained in terms of the accounting values of India. The voluntary organisations of academics, environmentalists, ecologists, humanists and others have hardly shown any influence on corporate reporting in India (Banerjee, 2002a). This further raises doubt as to whether these bodies have been given an opportunity to participate in the accounting standards setting process at all, or they have been suppressed by the power of other organisations/ bodies. This could be due to power-distance in the country, which has been identified in chapter four while discussing the country profile of India. It is significant to note here that India has ceded its power of policy formulation, which is actually in the hands of the WTO, IMF and the World Bank (Thapar, 2001).

Finally, the ASB should try to consider the accounting values of the country while formulating its accounting standards. It should also take the initiative to get more participation from industries and accounting academics.

The present research suggests that IFRSs are unlikely to have a smooth run in India. This raises a considerable question in the present global environment as to how to develop internationally acceptable accounting standards that are also acceptable locally.

9.3 Contribution to knowledge

The study responds to the need for a detailed study in regard to the explanation of the rationale behind the change in accounting regulation in India, focussing on the formulation of accounting standards.

Previous studies in regard to India mostly compared the Indian standard and the US GAAP / IASs or other international standards in brief (Bir, 1998; Iyer, 2002). These studies lack a detailed approach in this regard that will help in understanding the rationale behind the change in accounting regulation in India. This gap in the literature has been partially filled by the present study.

Banerjee (2002a) has conducted a detailed study in regard to the financial reporting regulation of India, together with a study of the level of compliance of a sample of 50 Indian companies with regulatory measures consisting of legislative provisions and the Companies Act. The study shows that these companies follow those provisions that are mandatory for them. The current study takes a different perspective and examines the extent of voluntary compliance by a sample of Indian companies with IFRSs. This has been done by examining whether the sample of companies prepare their financials in

accordance with the IFRSs and whether they comply with a checklist of measurement and disclosure requirements of IFRSs voluntarily. The examination of voluntary compliance by Indian companies provides a more clear idea in regard to whether these companies embrace IFRSs in the context of their operation.

Studies in regard to India until now have not considered the 'cultural values' and 'accounting values' of the country. The current study explores in-depth the country profile of India, considering its cultural values and hence its related accounting values.

The study also contributes to the existing body of literature by using the Gernon and Wallace (1995) model in exploring the accounting ecology of India and using an 'Institutional Theory' perspective to identify the factors influencing the decision to adapt the IFRSs in India.

9.4 Directions for further research

It seems from the way the ICAI is adapting the standards pronounced by the IASB in India, that further research is required in the following areas:

Firstly, it is important to understand whether these IFRSs-based Indian standards are relevant to India. This research project suggests that the IASC standards may not have a smooth run in the Indian context given the cultural differences. However, some of the IASC standards have been changed to some extent by the ICAI in order to suit them to India. On the other hand, it seems that the decision of adapting the IFRSs was influenced by external as well as internal pressures. Hence, further research is required to explore the reasons behind the changes made by the ICAI to IFRSs and whether the ICAI has amended these IFRSs to suit the culture of India or for

any other reason, that is, due to any other pressures. A detailed study of the exposure drafts of each Indian standard seems necessary in this regard. This could provide a clear understanding of the way the ICAI is adapting the IFRSs and whether the process is supported by the community at large.

Secondly, a research project that will investigate the meaning of the terms 'laws, customs, usages and business environment' of India, as perceived by the ASB of ICAI seems necessary. This is due to the fact that the meaning of accounting values as perceived by the ICAI may be different from that proposed by Gray (1988), which has been used in the present study.

Finally, a research project, which will explore the application of these IFRSs based Indian standards by companies seem to be necessary. This project should explore whether Indian companies are having any problems in using these new accounting standards, together with whether the accounting profession is fully equipped and qualified to use these new IFRSs based Indian standards.

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APPENDICES

APPENDIX-1

Table: Gross Domestic Product at market price (Rs bn)

Year to	GDP at mkt price (Rs bn)
1988-89	3957.8
1989-90	4568.2
1990-91	5355.3
1991-92	6168.0
1992-93	7059.2
1993-94	8107.5
1994-95	9634.9
1995-96	11189.6
1996-97	12769.7
1997-98 (E)*	14150.0

Source: Indian Economy- Economy Database

(www.indiainfoline.com)

* It is unclear from the website as to the meaning of (E), although the author assumes that it refers to 'Estimates.'

APPENDIX-2

Table: Gross National Product

Year to	Gross National Product at factor cost (Rs bn)	
	At current prices (97-98)	At 1980-81 prices
1988-89	3482.1	1852.3
1989-90	4029.3	1980.8
1990-91	4702.7	2084.8
1991-92	5426.9	2096.2

1992-93	6189.7	2204.6
1993-94	7205.3	2340.9
1994-95	8549.4	2523.2
1995-96	9928.0	2709.9
1996-97	11353.7	2918.8
1997-98 (E)*	12602.6	3070.0

Source: Indian Economy: Economy Database (www.indiainfoline.com)

* It is unclear from the website as to the meaning of (E), although the author assumes that it refers to 'Estimates.'

APPENDIX-3

Table: Per Capita Income

Per Capita Net Product (Rs)		
	At current prices (97-98)	At 1980-81 prices
1988-89	3842.1	2059.0
1989-90	4346.5	2157.1
1990-91	4983.0	2222.2
1991-92	5602.9	2175.1
1992-93	6261.7	2243.1
1993-94	7195.7	2337.2
1994-95	8402.6	2473.2
1995-96	9578.4	2608.2
1996-97	10771.2	2761.4
1997-98 (E)*	11934.5	2871.9

Source: Indian Economy: Economy Database (www.indiainfoline.com)

* It is unclear from the website as to the meaning of (E), although the author assumes that it refers to 'Estimates.'

APPENDIX- 4

Table: Annual rate of inflation (%yoy)

Year to	Average
1990	9.9
1991	13.0
1992	9.8
1993	8.4
1994	10.0
1995	10.2
1996	6.9
1997	6.1

Source: Indian Economy: Economy Database (www.indiainfoline.com)

APPENDIX-5

Table: Balance Of Payment (B.O.P)

Year to	Rs bn (overall balance i.e., Current Account + Capital)
1990-91	(44.7)
1991-92	72.7
1992-93	(8.8)
1993-94	267.8
1994-95	181.6
1995-96	(40.5)
1996-97	242.2
1997-98	166.5
1998-99	182.5

Source: Indian Economy: Economy Database (www.indiainfoline.com)

APPENDIX-6

Table: Inflow of Foreign Investments in India

Year to	Inflow of foreign investment (Rs bn)
1990-91	2.0
1991-92	3.9
1992-93	18.0
1993-94	144.6
1994-95	180.9
1995-96	190.4
1996-97	273.4
1997-98	344.4
1998-99	248.3

Source: Indian Economy: Economy Database (www.indiainfoline.com)

APPENDIX-7

Membership

The accounting profession in India is organised on the basis of self-regulation. India has one national accounting body, namely, the ICAI. However, there is a separate institute to deal with cost accounting, named as The Institute of Cost and Works Accountants of India (ICWAI). The ICAI has a significant role in the matter of GAAP through (a) Guidance notes, (b) Statements on Accounting Matters, and (c) Accounting standards issued by it from time to time. Guidance notes are recommendatory in nature and may be related to both accounting and auditing matters. Statements on matters of accounting are issued with a view to securing compliance by its members on matters that, in the opinion of the ICAI, are critical to the proper discharge of their

auditing functions. Accounting standards may be 'mandatory' or 'recommendatory.' (Banerjee, 2002a). The Institute has one type of membership, which is known as the Chartered Accountant (CA).

Three basic elements have to be fulfilled to be a CA. These are as follows:

- academic study
- practical experience
- passing the examinations conducted by the ICAI

The process through which one can become a C.A. can be explained as follows:

Professional Education (Examination I) (PE-I)

Someone passing the 10+2 examination or equivalent can register for the PE-I course of 10 months' duration. However, a person not having a specific percentage of marks on graduation (Bachelors degree) is also required to study this course. After the completion of the course, the person is required to take up the PE-I.

Professional Education (Examination II) (PE-II)

After passing the PE I, one is required to take up the PE-II course of study for 10 months, and then take the PE II examination.

However, a person holding an aggregate of a minimum of 50% marks on graduation in the field of Commerce and having Accountancy, Auditing and Commercial law as full papers, or a non-commerce graduate with a minimum of 55% in aggregate without mathematics as a subject, or a graduate in another discipline with mathematics as a subject and with 60% marks as the minimum in aggregate or candidates who have passed the final examination of the ICWAI/ Institute of Company Secretaries of India (ICS) are not required to sit the PE-I. They can sit the PE-II after completing a course of 10 months.

Computer training

After completing/while pursuing the PE-II or PE-I, a candidate is required to take up computer training to be eligible to study the final course and hence to sit for the final examination.

Final course

A candidate has to complete 3 years of practical training if he/she is an articled clerk, or 4 years of practical training if he/she is an audit clerk, after the completion of PE-II, to be eligible for the final course of study.

A blend of theoretical and practical knowledge is expected to be possessed by the candidate after the completion of the final course of study, and he/she is now eligible for membership of the ICAI and hence given the status of a Chartered Accountant (C.A.).

Before the Companies Act 1956 the aspect of regulation in regard to the maintenance of cost records and audit of cost accounts was absent from any other corporate legislation (Banerjee, 2002a). The profession of cost accountants was established by a special Act of Parliament, known as the Cost and Works Accountants Act, 1959. It is the only recognised statutory organisation and licensing body in India specialising solely in Cost Accountancy. A 'Cost Accountant' performs services involving the costing or pricing of goods and services or the preparation, verification or certification of cost accounting and related statements (www.myciwai.com).

The Government issues an order under section 233B for a cost audit from time to time in selected industries falling under the purview of the record rules. Hence, the statutory cost audit has so far been only selective and all companies even within a particular industry under the purview of cost audit rules may not be covered. It is also not necessary that a cost audit of a company be conducted every year.

Hence, cost audit may not be applicable in all units of a particular industry and regularly every year for a unit of an industry. There were 5367 companies in regard to which cost audit was ordered in the 10 years from 1977 to 1987 indicating that, on an average, 481 companies per annum have been brought under the purview of cost audit (Ghosh et al., 1989 cited in Banerjee, 2002a).

The ICWAI has only one type of membership and members are called The Cost and Works Accountants (CWA). A candidate has to pass three basic courses of examinations in order to be a CWA. These are as follows:

- (i) the foundation course
- (ii) the intermediate course
- (iii) the final course

A candidate who has already passed the graduate degree examination from a recognised university does not have to take up the foundation course. He/she can directly take up the intermediate course. The intermediate course and the final course consist of two stages respectively, comprising four papers under each of these stages. Each student has to take up computer training under the intermediate and final course respectively, unless he/she is exempted otherwise. The objective of the Institute is to develop the cost and management accountancy function, to promote and develop the adoption of scientific methods in cost and management accountancy, to develop the professional body of members and equip them fully to discharge their functions and fulfil the objectives of the Institute in regard to the developing economy, among others (www.mycwai.com).

APPENDIX-8

TOPIC	IAS	AS
Valuation of Inventories	IAS-2: Inventories	AS-2: Valuation of Inventories
Cash Flow Statements	IAS-7: Cash Flow Statements	AS-3: Cash Flow Statements
Provisions, Contingent Liabilities and Contingent Assets	IAS-10: Contingencies and Events After the Balance Sheet Date	AS-4: Contingencies and Events After the Balance Sheet Date
Net Profit or loss for the period, prior period items, fundamental errors and changes in accounting policies	IAS-8: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	AS-5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
Construction Contracts	IAS-11: Construction Contracts	AS-7: Construction Contracts
Borrowing Costs	IAS-23: Borrowing Costs	AS-16: Borrowing Costs
Segment Reporting	IAS-14: Segment Reporting	AS-17: Segment Reporting
Related Party Disclosures	IAS-24: Related Party Disclosure	AS-18: Related Party Disclosures
Accounting for Leases	IAS-17: Leases	AS-19: Leases
Earnings Per Share	IAS-33: Earnings Per Share	AS-20: Earnings Per Share
Consolidated Financial Statements	IAS-27: Consolidated Financial Statements and Accounting for Investments in Subsidiaries	AS-21: Consolidated Financial Statements
Accounting for investments in associates	IAS-28: Accounting for Investments in Associates	AS-23: Accounting for Investment in Associates in Consolidated Financial Statements
Discontinuing Operations	IAS-35: Discontinuing Operations	AS-24: Discontinuing Operations
Interim Financial Reporting	IAS-34: Interim Financial Reporting	AS-25: Interim Financial Reporting
Intangible Assets	IAS-38: Intangible Assets	AS-26: Intangible Assets
Financial Reporting of interests in joint ventures	IAS-31: Financial Reporting of Interests in Joint Ventures	AS-27: Financial Reporting of Interests in Joint Ventures

APPENDIX-9

Valuation of inventories

	Particulars	IAS-2: Inventories	AS-2: Valuation of Inventories
1.	Effective date	1.1.1995	1.4.1999
2.	Cost of Inventories of a Service Provider	The IAS-2 states that the cost of inventories of a service provider comprises of the labour and other costs of personnel directly engaged in providing the service, which includes supervisory personnel, and attributable overheads, but not the costs of labour and other costs in relation to sales and general administrative personnel, and these costs should be recognised as expenses in the period in which they are incurred.	The AS-2 does not give any guidance in regard to the cost of inventories of a service provider.
3.	Formulas for measuring the cost	IAS-2 allows the use of LIFO formula in the measurement of the cost of inventories.	AS-2 does not allow the use of LIFO method.
4.	Computation of Net realisable value	The IAS-2 requires the treatment of each service as a separate item in the computation of net realisable value since service providers in general accumulate costs in respect of each service for which a separate selling price will be charged.	The AS-2 does not guide service providers to compute the net realisable value.
5.	Treatment of inventories in the event of selling	The IAS-2 requires the recognition of the carrying amount of those inventories sold, as an expense in the period in which the related revenue is recognised. The standard requires the amount of any write-down of inventories to net realisable value and the losses in inventories to be recognised as an expense in the period the write down or loss	There is no guidance in regard to the treatment of inventories in the event of selling under AS-2.

		<p>takes place. The amount of any reversal of any write-down of inventories, arising from an enhancement in net realisable value is required to be recorded as a reduction in the amount of inventories, which should be recognised as an expense in the period in which the reversal takes place. However, the standard also allows the allocation of some inventories to other asset accounts, which are recognised as an expense during the useful life of that asset.</p>	
6.	Disclosure in financial statements	<p>The IAS-2 requires the disclosure of the carrying amount of inventories carried at net realisable value, the amount of reversal, if any, of any write-down that is recognised as income in the period, the circumstances or events that led to the reversal of a write-down of inventories, and the carrying amount of inventories assured for liabilities.</p>	<p>These are not required to be disclosed under the AS-2.</p>
7.	Other disclosure requirements	<p>The IAS-2 requires the disclosure of either the cost of inventories to be recognised as an expense during the period, or the operating costs applicable to revenues, to be recognised as an expense during the period, classified by their nature.</p>	<p>These are not required to be disclosed under the AS-2.</p>

APPENDIX-10
Cash Flow Statements

	Particulars	IAS-7: Cash Flow Statements	AS-3: Cash Flow Statements
1.	Effective date	1.1.1994	1.4.2001
2.	Applicability of the standard	The IAS-7 applies to all the enterprises those who prepare their accounts in accordance with the IAS.	The AS-3 is only mandatory to those enterprises whose equity or debt securities are listed on a stock exchange recognised in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on such a stock exchange as evidenced by the resolution of the board of directors in this regard.
3.	Foreign currency cash flows	The IAS-7 does not allow the use of the rate that approximates the actual rate, if the result is considerably the same as would arise if the rates at the dates of cash flows were used.	The AS-3 allows the rate that approximates the actual rate, if the result is considerably the same as would arise if the rates at the dates of cash flows were used.
4.	Investment in subsidiaries, associates and joint ventures	The IAS-7 requires an enterprise to include the proportionate share of the jointly controlled entity's cash flows in its Consolidated Cash Flow Statement, if an enterprise reports its interest in a jointly controlled entity using proportionate consolidation.	There is no such guidance or requirements under the AS-3.
5.	Acquisitions, disposals of subsidiaries and other business units	The IAS-7 requires an enterprise to disclose in respect of both acquisitions and disposals of subsidiaries or other business units during the period, the amount of	These are not required to be disclosed under the AS-3.

		cash and cash equivalents in the business units or subsidiary acquired or disposed of; and the amount of the assets and liabilities other than cash or cash equivalents in the subsidiary or business unit acquired or disposed of, summarised by each major category.	
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APPENDIX-11

Provisions, contingent liabilities and contingent assets

	Particulars	IAS-10: Contingencies and Events after the Balance Sheet date	AS-4: Contingencies and Events after the Balance Sheet date
1.	Effective date	1.1.1980	1.4.1995
2.	Disclosure requirements	The IAS-10 requires the disclosure of any additional exposure to loss, if there is a possibility of loss in excess of the amount recognised.	The AS-4 does not require such disclosure.

APPENDIX-12

Net profit or loss for the period, prior period items, fundamental errors and changes in accounting policies

	Particulars	IAS-8: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	AS-5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
1.	Effective date	1.1.1995	1.4.1996
2.	Accounting Treatment of the items	The benchmark treatment under IAS-8 requires the reporting of the amount of correction of a fundamental error that relates to previous periods by adjusting the opening balance of retained earnings.	This is not allowed under the AS-5.

		<p>The consideration of extraordinary items and the effects of changes in accounting estimates and policies, to be recognised in the determination of the net profit or loss for the period, is only the allowed alternative under the IAS-8.</p>	<p>The AS-5 requires the consideration of extraordinary items and effects of changes in accounting estimates and policies to be recognised in the determination of the net profit or loss for the period.</p>
		<p>The IAS-8 requires the restatement of comparative information, unless it is not practicable to do so.</p>	<p>This is not required under the AS-5.</p>
3.	Differences in terminology and concepts	<p>The IAS-8 does not differentiate the changes in accounting estimates from a change in accounting policy.</p>	<p>AS-5 differentiates the changes in accounting estimates from a change in accounting policy.</p>
4.	Disclosure Requirements	<p>Under the benchmark treatment, IAS-8 requires the enterprise to disclose the nature of fundamental error, the amount of correction in relation to periods prior to those included in the comparative information, and the fact that comparative information has been restated or that it is not practicable to do so. The IAS-8 under its allowed alternative treatment, requires an enterprise to disclose the nature of fundamental error, the amount of correction recognised in net profit or loss for the current period, the amount of the correction included in each period for which pro forma information is presented and the amount of the correction in relation to period previous to those included in the pro forma information. However, the</p>	<p>All these disclosure requirements are not required under the AS-5.</p>

		enterprise must state the fact, if the disclosure of such information is not practicable.	
5.	Disclosure in regard to a change in accounting policy	Disclosure requirements of IAS-8 are more specific and detailed than that of the AS-5. IAS-8 requires the disclosure of the reasons for change, the amount of the adjustment for the current period and for each period presented, the amount of the adjustment in relation to periods previous to those included in the comparative information and the fact that comparative information has been restated or that it is not practicable to do so.	Disclosure requirements under AS-5 are less specific and less detailed than that of the IAS-8. AS-5 requires additional disclosure in regard to the impact of and adjustments resulting from such change, in case the effect of a change in accounting policy is material. This standard requires disclosure in case the effect of such change cannot be ascertained, wholly or in part.

APPENDIX-13

Construction contracts

	Particulars	IAS-11: Construction Contracts	AS-7: Construction Contracts
1.	Effective date	1.1.1995	1.4.2002
2.	Measurement of the 'contract revenue'	The IAS-11 specifies the measurement of 'Contract revenue' at the fair value of the consideration received or receivable.	The AS-7 requires the measurement of 'contract revenue' at the consideration received or receivable, but does not specify 'fair value' in this regard.

APPENDIX-14

Borrowing costs

	Particulars	IAS-23: Borrowing Costs	AS-16: Borrowing Costs
1.	Effective date	1.1.1995	1.4.2000
2.	Accounting treatment of borrowing costs	The IAS-23 recommends the recognition of borrowing costs as an expense in the period they are incurred regardless of the way of application of the borrowing costs, as a benchmark treatment, and alternatively the standard allows the direct attribution of borrowing costs in regard to the acquisition, construction or production of a qualifying asset to be capitalised as part of the cost of the asset.	The AS-16 does not allow the benchmark treatment under the IAS-23.
3.	Disclosure in financial statements	The IAS-23 requires the disclosure of the accounting policy adopted in regard to borrowing costs, the amount of the costs of borrowings capitalised during the period and the rate of capitalisation used in the determination of the amount of borrowing costs eligible for capitalisation.	The AS-16 does not require the disclosure of the rate of capitalisation used in the determination of the amount of borrowing costs eligible for capitalisation.

APPENDIX-15

Segment reporting

	Particulars	IAS-14: Segment Reporting	AS-17: Segment Reporting
1.	Effective date	1.7.1998	1.4.2001
2.	Applicability of the standard	The IAS-14 is mandatory to those enterprises whose equity or debt securities are listed on a stock exchange, that is recognised, and enterprises that are in the process of issuing equity or debt securities	The AS-17 is also mandatory for all other commercial, industrial and business reporting enterprises, whose turnover for the period of

		in public securities market.	accounting is more than Rs 50 crores (500 million) together with those enterprises whose equity or debt securities are listed on a recognised stock exchange and enterprises that are in the process of issuing equity or debt securities in public securities market.
3.	Reportable segment	The IAS-14 allows the combination of two or more internally reported business segments on geographical segments that are subsequently similar, as a single business segment or geographical segment.	The AS-17 does not allow this treatment.
4.	Disclosure requirements	The IAS-14 requires the disclosure of the fact and the amounts of revenue from sales to external customers and internal sales to other segments, if a business segment or geographical segment for which information is reported to the board of directors and chief executive officer is not a reportable segment since it earns most of its revenue from sales to other segments, but nonetheless its revenue from sales to external customers is 10 percent or more of total enterprise's revenue from sales to all external customers.	The AS-17 does not require this disclosure.
5.	Disclosure requirements	The IAS-14 requires the restatement of the prior period segment information that is included in financial statements for comparative purposes, if	The AS-17 requires the disclosure of the nature of the change and the financial effect of the change, if it can be

		practicable, to reflect the new accounting policy, in case of a change in accounting policies in relation to specifically segment reporting.	determined reasonably but does not require the restatement of the prior period segment information that is included in the financial statements for comparative purposes.
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APPENDIX-16

Related party disclosures

	Particulars	IAS-24: Related Party Disclosure	AS-18: Related Party Disclosures
1.	Effective date	Effective from 1.1.1986 and reformatted in 1994.	1.4.2001
2.	Disclosure of related party transactions	The IAS-24 requires the disclosure of related party transactions in all cases.	The AS 18 does not require the disclosure of related party transactions, if such disclosure conflicts with the reporting enterprise's duties of confidentiality as specifically required in terms of a statute or by any regular or similar competent authority.
3.	Significant Influence	The IAS-24 does not specify any percentage to explain 'substantial interest.'	The AS-18 assumes that an enterprise has substantial interest in another enterprise if it holds 20 percent or more interest in the voting power of the other enterprise.
4.	Disclosures in regard to related party transactions	The IAS-24 does not require the disclosure of the name of the transacting party, a description of the relationship between parties and amounts written off or written	The AS-18 requires the disclosure of the name of the transacting party, a description of the relationship between parties

		back in the period in regard to the debts due from or to related parties if there have been transactions between related parties, during the existence of a relationship between these parties.	and amounts written off or written back in the period in regard to the debts due from or to related parties if there have been transactions between related parties, during the existence of a relationship between these parties.
5.	Disclosures in regard to related party transactions	The IAS-24 recommends the disclosure of the pricing policies in regard to related party transactions.	The AS-18 does not give any recommendation of disclosing the pricing policies in regard to related party transactions.

APPENDIX-17

Accounting for leases

	Particulars	IAS-17: Leases	AS-19: Leases
1.	Effective date	1.1.1999	1.4.2001
2.	Definition of 'useful life'	The IAS-17 does not include the number of production or similar units expected to be obtained from the use of the asset by the lessee, in defining the 'useful life.'	The AS-19 defines 'useful life' as either the period over which the leased asset is expected to be used by the lessee or the number of production or similar units expected to be obtained from the use of the asset by the lessee.
3.	Disclosures in regard to finance lease	The IAS-17 does not require the disclosure of finance lease as segregated from the assets owned.	The AS-19 requires the disclosure of finance lease as segregated from the assets owned.
4.	Disclosure of finance leases in the financial statement of lessors	The IAS-17 does not require the disclosure of a general description of the significant leasing arrangements of the lessor.	The AS-19 requires the disclosure of a general description of the significant leasing arrangements of the lessor.

5.	Disclosure of operating leases in the financial statement of lessors	The IAS-17 does not require the disclosure of the gross carrying amount, the accumulated depreciation and accumulated impairment losses at the Balance Sheet date and the depreciation recognised in the statement of profit and loss for the period, impairment losses recognised in the statement of profit and losses for the period and impairment losses reversed in the statement of profit or loss for the period, for each class of assets. The standard also does not require the disclosure of the accounting policy adopted in regard to initial direct costs.	The AS-19 requires the disclosure of the gross carrying amount, the accumulated depreciation and accumulated impairment losses at the balance sheet date and the depreciation recognised in the statement of profit and loss for the period, impairment losses recognised in the statement of profit and losses for the period and impairment losses reversed in the statement of profit or loss for the period, for each class of assets. AS-19 also requires the disclosure of the accounting policy adopted in regard to initial direct costs.
6.	Sale and leaseback transactions	The IAS-17 does not require the amortisation in regard to sale and leaseback transactions to be done specifically in proportion to the depreciation of the leased asset.	The AS-19 requires the amortisation in regard to sale and leaseback transactions to be done specifically in proportion to the depreciation of the leased asset.

APPENDIX-18

Earnings per share

	Particulars	IAS-33: Earnings Per Share	AS-20: Earnings Per Share
1.	Effective date	1.1.1998	1.4.2001
2.	Calculation of basic earnings per share	The IAS-33 does not require the net profit or loss for the period to be apportioned over different classes of	The AS-20 requires the net profit or loss for the period to be apportioned

		shares in accordance with their dividend rights, if an enterprise has more than one class of equity shares.	over different classes of shares in accordance with their dividend rights, if an enterprise has more than one class of equity shares.
3.	Disclosure requirements	The IAS-33 does not require the disclosure of the nominal value of shares together with the figures of earnings per share.	The AS-20 requires the disclosure of the nominal value of shares together with the figures of earnings per share.

APPENDIX-19

Consolidated Financial Statements

	Particulars	IAS-27: Consolidated Financial Statements and Accounting for Investments in Subsidiaries	AS-21: Consolidated Financial Statements
1.	Effective date	1.1.1990	1.4.2001
2.	Definition of 'control'	The IAS-27 only states 'control' as the power to preside over the financial and operating policies of an enterprise so as to obtain some benefits from its activities. Hence, the definition according to the International Standard is much wider than that of the Indian standard.	The AS-21 specifically defines 'control' as the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the power of voting of an enterprise, or to control the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise in the view to obtain economic benefits from its activities.
3.	Procedures of Consolidation	The IAS-27 requires the elimination of the carrying amount of the parent's investment in each	The AS-21 requires the elimination of the cost to the parent of its

		<p>subsidiary and the portion of equity of the parent.</p>	<p>investment in each subsidiary and the parent's portion of equity of each subsidiary, at the date on which investment in each subsidiary is made, leading to either goodwill to be recognised as an asset (in case of any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of the equity of the subsidiary) or capital reserve in consolidated financial statements (in case the cost to the parent of its investment in a subsidiary is less than the parent's portion of its equity of the subsidiary).</p>
4.	<p>Difference in regard to the reporting date</p>	<p>The IAS-27 allows the difference in the date of reporting between subsidiaries and the parent for more than 6 months.</p>	<p>The AS-21 does not allow the difference in the date of reporting between subsidiaries and the parent for more than 6 months.</p>
5.	<p>Disclosure requirements in Consolidated Financial Statements</p>	<p>The IAS-27 does not require the disclosure of the names of subsidiary(ies) of which reporting date(s) is/are different from the date of the parent and the difference in reporting dates, if this is the case.</p>	<p>The AS-21 requires the disclosure of the names of subsidiary(ies) of which reporting date(s) is/are different from the date of the parent and the difference in reporting dates, if this is the case.</p>

APPENDIX-20

Accounting for investments in associates

	Particulars	IAS-28: Accounting for Investments in Associates	AS-23: Accounting for Investment in Associates in Consolidated Financial Statements
1.	Effective date	Effective from 1.1.1990 except for paragraphs 23 and 24 and then from July 1990 together with paragraph 23 and 24 of the standard.	1.4.2002
2.	Definition of 'Control'	The IAS-28 defines 'control' as the power to rule the financial and operating policies of an enterprise in the view to obtain benefits from its activities.	The AS-23 defines 'control' as the ownership directly or indirectly with the help of subsidiary(ies) of more than one-half of the power of voting of an enterprise, or, to control the composition of the board of directors in the case of a company or of the composition of the corresponding administrative body in case of any other enterprise in the view to obtain economic benefits from its activities. Hence, the AS-23 in this regard is more specific in regard to the definition than that of the IAS-28.

3.	Method of Accounting for Investments	The IAS-28 recommends both the cost and equity method.	The AS-23 only recommends the equity method in this regard, and it is silent about the cost method and does not describe the cost method.
		The IAS-28 does not require the disclosure of the reasons, in the event of non-application of the equity method.	The AS-23 requires the disclosure of reasons, in the event of non-application of the equity method.
4.	Disclosure requirements in regard to the application of equity method	The IAS-28 does not require additional disclosure of a brief description of the differences between accounting policies.	The AS-23 requires additional disclosure of a brief description of the differences between accounting policies in case an associate uses accounting policies, which are different than those adopted for consolidated financial statements for similar transactions and events in similar circumstances and when it is not practicable to make proper adjustments to the associate's financial statements.
5.	Additional disclosures	The IAS-28 does not require the disclosure of the name(s) of associate(s) of which reporting date(s) is/ are different from that of financial statements of an investor and differences in the respective dates of reporting to be disclosed in consolidated financial statements.	The AS-23 requires the disclosure of the name(s) of the associate(s) of which reporting date(s) is/ are different from that of financial statements of an investor and the differences in the respective dates of reporting to be disclosed in consolidated financial

			statements.
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APPENDIX-21

Discontinuing operations

	Particulars	IAS-35: Discontinuing Operations	AS-24: Discontinuing Operations
1.	Effective date	1.1.1999	1.4.2002
2.	Disclosure requirements	The IAS-35 requires the disclosure of a description of discontinuing operations, the date and nature of the initial disclosure event and the amounts of net cash flows attributable to the operating, investing and financing activities of the discontinuing operation during the current financial reporting period.	These are not required to be disclosed under the AS-24.

APPENDIX-22

Interim financial reporting

	Particulars	IAS-34: Interim Financial Reporting	AS-25: Interim Financial Reporting
1.	Effective date	1.1.1999	1.4.2002
2.	Contents of interim financial report	The IAS-34 mandates the preparation of a statement showing either the changes in equity or the changes in equity other than those arising from capital transactions with owners and distributions to owners.	The AS-25 does not require the preparation of a statement showing either the changes in equity or the changes in equity other than those arising from capital transactions with owners and distributions to owners.

		The IAS-34 requires the preparation of Cash Flow Statement for all enterprises that prepares interim financial statements.	The AS-25 mandates the preparation of Cash flow statement only to those enterprises that prepare such statement in their annual financial report under the AS-25.
3.	Content and form of Interim Financial Statements	The IAS-34 does not mandate the preparation of the parent's separate statements in this case but allows its preparation, as well.	The AS-25 mandates the preparation of both the consolidated financial statements and separate financial statements, complete or condensed, in the interim financial report of an enterprise, if the enterprise's annual financial report included the consolidated financial statements in addition to the parent's separate financial statements.
4.	Restatement of interim periods reported previously	The IAS-34 also requires the restatement of the comparable interim periods of prior financial years, if the enterprise follows the benchmark treatment under the IAS-8.	The AS-25 does not require the restatement of the comparable interim periods of prior financial years.

APPENDIX-23

Intangible assets

	Particulars	IAS-38: Intangible Assets	AS-26: Intangible Assets
1.	Effective date	1.7.1999	Effective from 1.4.2003 for specific enterprises and for all enterprises from 1.4.2004

2.	Treatment in regard to the measurement of intangible assets subsequent to initial recognition	The IAS-38 allows the carrying of an intangible asset after initial recognition at a revalued amount, being its fair value at the date of the revaluation less any accumulated amortisation and any subsequent impairment losses.	This is not allowed under the AS-26.
		The IAS-38 recommends the intangible assets to be carried at its cost less any accumulated amortisation and any accumulated impairment losses.	This is only the allowed treatment under the AS-26.
3.	Period of amortisation	The IAS-38 presumes that the useful life of an intangible asset will not exceed 20 years from the date when the asset is available for use.	The AS-26 presumes that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use.

APPENDIX-24

Financial reporting of interests in joint ventures

	Particulars	IAS-31: Financial Reporting of Interests in Joint Ventures	AS-27: Financial Reporting of Interests in Joint Ventures
1.	Effective date	Effective from 1.1.1992 except in case of paragraph 39, 40 and 41 and then from 1.7.1999 fully.	1.4.2002
2.	Treatment of items in consolidated financial statements of a venturer	The IAS -31 recommends the use of proportionate consolidation method as a benchmark treatment, in regard to the reporting of items in consolidated financial statements of the venturer and allows the use of equity method in this context.	The AS-27 does not allow the use of equity method.
3.	Reporting formats in the case of proportionate consolidation	The IAS-31 allows alternatively the separate line items to be included by the venturer for its share of the assets, liabilities, income and	The AS-27 does not allow this alternative format.

		expenses of the jointly controlled entity in its consolidated financial statements.	
4.	Preparation of separate financial statements of the venturer	There is no guidance in regard to the preparation of separate financial statements of the venturer under the IAS-31. IAS-31 requires the preparation of such financial statements in accordance with the requirement of specific countries, as the case may be.	The AS-27 guides the preparation of separate financial statements of the venturer, and recognises the full amount of gain or loss arising from transactions taking place between the venturer and the jointly controlled entity.
5.	Disclosure requirements	The IAS-31 does not require the disclosure of the name and country of incorporation or residence.	The AS-27 requires the disclosure by the venturer of the proportion of ownership interest, name and country of incorporation or residence in regard to jointly controlled entities.

APPENDIX-25

Name of the Company	Market Capitalisation (Rs bn)	Industry
ONGC	505.6	Oil & Gas
HLL	317.7	FMCG
Reliance Industries	289.6	Diversified
WIPRO	201.5	IT
Infosys Technologies	184.7	IT
Indian Oil Corporation	183.9	Oil & Gas
ITC	167.4	FMCG
HPCL	94.4	Oil & Gas

RANBAXY	78.2	Pharmaceutical
BPCL	69.3	Oil & Gas
Gas Authority of India	67.0	Oil & Gas
MTNL	58.0	Telecom
BHEL	56.2	Engineering
National Aluminium	53.8	Aluminium
NESTLE	51.1	FMCG
Larsen & Toubro	49.9	Diversified
Bajaj Auto	48.9	Auto
TISCO	48.6	Steel
TELCO	48.3	Auto
Satyam Computers	47.9	IT
HINDALCO	46.0	Aluminium
Madras Cement	41.1	Cement
HCL Technologies	38.5	IT
CIPLA	37.9	Pharmaceutical
SAIL	37.8	Steel
GRASIM	33.1	Cement
ZEE TELE	31.7	Media
BSES	30.9	Power
DR REDDY	27.6	Pharmaceutical
Gujarat Ambuja Cement	24.5	Cement
GLAXO	24.1	Pharmaceutical
TATA Power	23.7	Power
CASTROL	23.5	Lubricants
ACC	22.4	Cement

VSNL	21.5	Telecom
ASIAN PAINTS	21.3	Paints
NIRMA	20.6	FMCG
IPCL	20.6	Petrochemicals
Shipping Corporation of India	18.9	Shipping
COLGATE	17.6	FMCG
Digital Equipments	17.2	IT
CONTAINER Corporation	15.2	Utility & Service
MICO	14.6	Auto
BRITANNIA	13.8	FMCG
WOCHARDT	13.1	Pharmaceutical
ABB	13.1	Engineering
SUN PHARMA	12.9	Pharmaceutical
Mahindra & Mahindra	12.9	Auto
TATA Chemicals	12.2	Chemicals
ASHOK LEYLAND	11.8	Auto

Source: www.indiainfoline.com

GLOSSARY OF ABBREVIATIONS

FULL FORM	ABBREVIATION
Accounting Standards Board	ASB
ASEAN Federation of Accountants	AFA
Association of South East Asian Nations	ASEAN
Australian Accounting Standards Board	AASB
Australian Securities and Investment Commission	SIC
Australian Society of Corporate Treasurers	ASCT
Australian Stock Exchange	ASX
Chartered Accountant	C.A.
Confucian Long-Term Orientation	LTO
Cost and Work Accountant	CWA
Organization for Economic Cooperation and Development	OECD
European Community	EC
European Union	EU
Exposure Draft	ED
Fiji Institute of Accountants	FIA
Financial Accounting Standards Board	FASB
Foreign Direct Investment	FDI
First-In-First Out	FIFO
Generally Accepted Accounting Principles	GAAP
Government of India	GOI
Gross Domestic Product	GDP
Indian Accounting Standard	AS
Individualism Index	IDV
Institute of Chartered Accountants of India	ICAI
Institute of Company Secretaries of India	ICS

International Accounting Standards Board	IASB
International Accounting Standards Committee	IASC
Institute of Chartered Accountants of India	ICAI
Institute of Cost and Works Accountants of India	ICWAI
International Accounting Standard	IAS
International Federation of Accountants	IFAC
International Financial Reporting Standard	IFRS
International Monetary Fund	IMF
International Organization of Securities Commission	IOSCO
Less Developed Country	LDC
Last-In-First Out	LIFO
Masculinity Index	MAS
Power Distance Index	PDI
Securities and Exchange Board of India	SEBI
Transnational Corporation	TNC
U.S. Securities and Exchange Commission	SEC
Uncertainty Avoidance Index	UAI
World Trade Organization	WTO