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USERS' VIEWS ON ACCOUNTING STANDARDS IN INDIA

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The role of financial reporting has changed comprehensively with the advent of company form of organisation. This paper, based upon a survey, highlights the views of different users about the different standards devised by the Accounting Standards Board of Institute of Chartered Accountants of India.

In the eighteenth and the nineteenth centuries, when sole proprietorship and partnership were the predominant forms of organisation, the main function of financial reporting was to provide information about the firm to its owners, who managed and owned them. With the advent of company form of organisation, later on, the focus of financial reporting has become broader and number of user-groups to whom the information is provided has increased quite a lot, and at present, includes besides management, investors, creditors, the present and potential suppliers, lenders, regulatory, registration and tax authorities, employees, consumers, competitors and society at large. Users' needs for different types of accounting information have also increased over this period. Greater emphasis is now laid on providing information to those users who have limited ability, authority and resources to obtain information and financial statements of an enterprise are the principal source of information to them for making different types of decisions'. Accounting standards have been devised to provide information to different user-groups. Accounting Standards Board of Institute of Chartered Accountants of India issues accounting standards. This article highlights the views of different categories of users about the different standards. A questionnaire was canvassed to all categories of users in India. 500 users were selected throughout the country, 63 completed questionnaires were considered. Unusable questionnaires were rejected. Users have been classified as given below in the table :

USERS' CLASSIFICATION	
CLASS	PERCENTAGE
Preparers	25
Auditors	25
Academics	16
Others	34
	100

Information was collected from very senior executives, officials, accountants and academicians. Also, personal interviews were sought with the informants comprising auditors, preparers (companies), shareholders, investors, creditors, academicians, executives of stock exchanges, and others. The category 'others' includes company secretaries, cost accountants, stock exchange executives, brokers, financial institutions, banks, and accounts officers from Comptroller and Auditor General's office.

AS. No. 1 (Disclosures of Accounting Policies)

AS-1 requires disclosure of any change in accounting policies that has a material effect in current/subsequent periods. It also requires disclosure in case fundamental assumptions are not followed. In both the situations given above, it does not require disclosure of reason for change in accounting policy as also change in fundamental accounting assumptions. In this regard, more than 87% of the users have preferred that reasons should be disclosed. However, about 69% of 'preparers' have shown their preference for disclosure of reasons in both the situations mentioned above. Over 87% of 'auditors' and 'academics' have also evinced their preference for disclosure of reasons. 'Others' have unanimous consent in this regard.

Users' views were also obtained regarding qualification to be made by the auditor in case of the reasons are not disclosed along with non-compliance of AS-1. More than four-fifths of the users were of the view that the auditor should qualify his report in such a situation.

AS-1 requires that significant accounting policies normally be disclosed at one place. Users' views were obtained whether the auditor should adequately disclose or qualify the report in case all the accounting policies and/or change(s) their in are disclosed at separate places. More than 60% of the users were of the view that the auditor should only disclose, and not qualify, the report in case significant accounting policies are not disclosed at one place.

AS-No. 2 (Inventory Valuation)

AS-2 states eight methods of inventory valuations namely, First in first out (FIFO), Average cost, Last in first out (LIFO), Base stock, Specific identification, Standard cost, Adjusted selling price and Latest purchase price. Users' views were sought which one or more among them be deleted or retained. Almost two-thirds or more of the users have shown their preference for retaining only three methods of valuation, namely, FIFO, Average cost and LIFO and deleting other methods. Category-wise analysis also reveals same preference as stated above. However, only 'auditors' and 'others' are in favour of retaining the specific identification method also.

AS-2 recommends that "the historical cost of inventories should normally be determined." In the period of rising prices, it is just comparing the current revenues with outdated historical cost of inputs, which may lead to

overstatement of profits in the above-mentioned situation. All the categories have given their view that it leads to overstatement of profits with the exception of 'auditors'. Some of the auditors said, "Most of the companies do not hold stock for long-time, hence it does not overstate the profits".

Users' views were obtained about the cost of raw materials being stated at replacement cost in place of historical cost in order to find out real profit. Over three-fourths of the users were of the opinion that raw materials should be stated at replacement cost rather than at historical cost. All the categories have favourably responded in this regard.

Users also stated their views on their preference for adoption of LIFO method in case of two-digit inflation. More than two-thirds of the users showed their preference for adoption of LIFO in case of two-digit inflation. Categorywise analysis also reveals the same results. However, only one-half of the 'auditors' have shown inclination for adoption of LIFO method in case of two-digit inflation.

AS-No. 3 (Changes in Financial Position)

AS-3 recommends that either working capital or cash or 'cash and cash equivalents' should be the basis for preparation of Statement of Changes in Financial Position (SCFP). Recent studies in U.S.A. have shown that many U.S. companies became bankrupt in early 1980s for adopting working capital as base for preparing this statement. These companies failed to correctly depict the liquidity position. U.S.A. has switched over to 'cash and cash equivalents' basis since 1987 and IASC has also proposed for this basis in 1991.

In the light of happening in U.S.A., as discussed above, users' views were sought. Over 90% of the users have shown their preference for the basis of preparing SCFP being changed to cash and cash equivalents' basis rather than to continue with working capital basis. However, some of the users laid emphasis that SCFP should be prepared on both the bases (i.e., working capital and 'cash and cash equivalents') because both of them provide separate information. The format of SCFP in U.S.A. and other developed countries (as also recommended by IASC in 1991) requires the sources and users of funds to be shown separately as under :

- operating activities
- investing activities
- financing activities

This type of activity-wise classification is more useful to user-groups for decision-making. However, the present practice in India is to list sources and uses without such classification. Users' views were sought on the preparation of SCFP by listing out sources and uses by activity-wise classification. It is interesting to note that all the users recommended activity-wise classification for listing sources and users of funds in SCFP.

AS-No. 5 (Prior Period and Extraordinary Items and Changes in Accounting Policies)

AS-5 requires that prior period items should be separately disclosed in the current statement of profit and loss statement. Prior period items should not be shown in the current profit and loss statement. Its rightful place is profit and loss appropriation: In this regard, about 85% of the users were of view that prior period items should not be shown in current statement of profit and loss statement. Thus, they have preferred amendment of AS-5 in this respect.

AS-No. 6 (Depreciation Accounting); AS-No. 10 (Accounting for Fixed Assets)

AS-6 states that "most commonly employed depreciation methods in industrial and commercial enterprises are straight line method and reducing balance method". During the period of rising prices, accelerated methods of providing depreciation (like sum-of-the-years'-digits, double declining balance method) have been found more useful for realistic reporting of income and assets. Over one-half of the users have recommended 'reducing balance' method. Category-wise analysis also reveals that 'preparers' and 'academics' prefer 'reducing balance' method as against other methods. 'Academics' prefer sum-of-the-years'-digits and reducing 'balance method' both. However, no clear picture emerges in case of 'others'.

During the period of rising prices, the profits are overstated if the depreciation continues to be charged on historical cost of acquisition of the fixed assets. It is therefore, revalued at frequent intervals and the depreciation is charged on the revalued amount. This being the higher figure, the profits are realistically stated in the financial statements.

AS-10 provides for revaluation of assets. 85% of the users were in favour of revaluation, while only 15% did not favour that. Category-wise classification shows that 'auditors' and 'academics' were almost unanimously in favour of revaluation method being adopted. Similarly 73% and 85% of 'preparers' and 'others' were also in favour of revaluation respectively. Users' views were obtained regarding who should determine the magnitude of revaluation. 82% of users prefer that revaluation should be done by a valuation agency. Category-wise, over 72% of 'preparers', 'auditors' and 'academics' favour revaluation by a valuation agency, while 94% of 'others' have given their preference for revaluation by a valuation agency.

FINDINGS

1. Reasons of change in accounting policies should be disclosed alongwith non-compliance of AS-1 and the auditor should qualify his report. Also, the auditor should not qualify the report, in case

accounting policies are not disclosed at one place. Only disclosure of accounting policies is sufficient.

2. Users' view that three methods of inventory valuation may be retained (FIFO, Average Cost, LIFO), and rest should be deleted. The cost of raw material should be stated at replacement cost instead of historical cost to find out the real profit. Also, LIFO method should be adopted in case of two-digit inflation.
3. Users' view that basis of preparation of SCFP should be changed to 'cash and cash equivalents' basis and the sources and uses of funds be classified as under :
 - operating activities
 - investing activities
 - financing activities
4. Prior period items should be shown in profit and loss appropriation. Hence, AS-5 needs to be amended in this respect.
5. Reducing balance and sum-of-years'-digits method be adopted in case of rising prices. Also, revaluation of fixed assets should be done on periodic basis by a valuation agency, and depreciation should be provided on revalued amount.