BASIC ACCOUNTING SYSTEM IN INDIA AND AUSTRALIA: A COMPRATIVEANALYSIS

ABSTRACT

Main object of Publication of this paper the differences in accounting between Australia and India. The extent of this diversity was not significant. Although India does not have standards equivalent to some of the Australian standards focused by this paper.

Keywords:

Foreign Direct Investment (FDI), Institute of Chartered Accountant of India (ICAI), International capital market, accounting standards Board (ASB).

INTRODUCTION

India is the fast growing country in world. It has been experiencing a healthy average annual growth rate of 8%(Approx)in real GDP (Gross Domestic Product) between 2010 and 2017. India's vast untapped consumer market and cheap labour have attracted a significant number of foreign companies to invest in India.

Other hand Australia was ranked 15th among countries with FDI inflow to India, between August 1991 and July 2016 (UNCTD, 2016). Its contribution of FDI constitutes 3% of India's total FDI inflows.

Foreign companies engaged in FDI are normally exposed to business environment and systems that are different from their home country. Accounting standards compliance and harmonization constitute an important issue as a company can find it difficult to follow different accounting standards for the same business structure in different countries. Differences in accounting standards are of importance because they can create additional expenses in financial statement. If they are not managed well. It can also present a contrasting financial situation under different sets of accounting standard if care was not exercised in understanding their potential impact. Accounting Standards of any country may create important role in economy .Other hand can say that Accounting policy (Accounting standards) grow up the economy of a country.

ACCOUNTING STANDARDS IN AUSTRALIA AND INDIA

In Australia, the Australian Accounting Standards Board is responsible for setting and maintaining accounting principal and standards (referred as AASB) for all sector. The Institute of Chartered Accountants of India (ICAI), a professional body established by an act of parliament in 1949, is similar in stature to the Australian Accounting Standards Board. On 21st April 1977, the ICAI constituted the Accounting Standards Board (ASB) to take charge of formulating accounting standards. Australia has forty-one accounting standard still date, which are adopted directly from the international accounting standards. In addition, this country has developed domestic standards that take into consideration of the economic conditions and social system within its economy, such as AASB 1004 Contribution, AASB1023 General Insurance Contracts, AASB 1031 Materiality, AASB 1038 Life Insurance Contracts, AASB 1039, Concise Financial Reports, AASB 1046 Director and Executive Disclosures by Disclosing Entities, and AASB 1048 Interpretation and Application of Standards. These standards, which were created specifically for the domestic context of Australia, were not included in this study because their contextual application would make them automatically different from the India's accounting standards. Instead, this paper focuses on AASBs which were direct adoption of the international accounting standards, and they are AASB 3 Business Combinations, AASB 5 Non Current Assets Held for Sale and Discontinued Operations, AASB 6 Exploration for and Evaluation of Mineral Resources, AASB 7 Financial Instruments: Disclosures, AASB 101 Presentation of Financial Statements, AASB 138 Intangible Assets, AASB 129 Financial Reporting for Hyperinflationary Economies, and AASB 141 Agriculture etc.

India developed its domestic accounting standards, which were claimed to be similar to international accounting standards (IASs), under the guidelines laid down by the Institute of Chartered Accountants of India. However, there has been criticism that these domestic accounting standards in India were inadequate and there were problems with their prevalent use in the preparation and presentation of financial statements by related Indian companies. In addition, the direct adoption of international accounting standards involved an unduly long delay in this country Unlike Australia, India does not create domestic standards that specifically cater to its economic conditions and social system. However, it has various acts such as Banking Act and Insurance Act that guides how books of accounts must be maintained in the banking and insurance industries.

DIFFERENCES IN ACCOUNTING STANDARDS BETWEEN AUSTRALIA AND INDIA

This paper highlights the differences in the Indian Accounting standards between Australia and India. The authors acknowledged that there might be inherent weaknesses in the domestic accounting standards being used in Australia and India that could make harmonization a challenge. This paper, however, does not involve the investigation of whether diversity in these accounting standards was the result of system weaknesses or the economic conditions and social system between these two countries. This aspect of investigation would warrant a further research paper.

The following comparisons highlight the differences in accounting standards between Australia and India:

Australia: AASB 3 Business Combinations. India: AS 14 Accounting for Amalgamation.

Business combination is defined by the Australian Accounting Standards Board (2004, p. 36) as the bringing together of separate entities or businesses into one reporting entity. It also refers to businesses that are brought together to form a joint venture. The rationale for the establishment of this standard was to promote comparability among the financial reports of Australian entities. According to Australia's AASB 3, accounting for business combinations is based on purchase method, in which the purchase price is shown in the books of accounts. In the case of India's AS 14, there are two methods for business combination, namely pooling of interest method and purchase method.

Another major difference related to business combinations lies in the treatment of goodwill that arises from business combinations in these two countries. In Australia, goodwill is not allowed to be amortized but must be subject to a yearly (more frequent, if necessary) review for impairment. As for India, goodwill could be amortized annually on the basis of the useful life of the business. The amortization period must not exceed 10 years for business consolidation and acquisitions, and 5 years for business amalgamation unless a longer period is justified.

Australia: AASB 5 Non Current Assets Held for Sale and Discontinued Operations. India: This standard is not explicit till date.

The objective of AASB5 standard is to specify the accounting for assets held for sale and presentation of discontinued operations. There is no explicit accounting standard for such transactions in India. The reason for the absence of an explicit standard is because the disposal and retirement of fixed assets is addressed in the accounting standards for fixed assets. Despite this, there is a difference in treatment of this matter. In Australia, fixed assets held for sale are separately disclosed on the face of the balance sheet or in the notes. In India, however, there is no separate presentation in the balance sheet.

Australia: AASB 6 Explorations for and Evaluation of Mineral Resources. India: This standard does not exist till date.

AASB6 standard specifies the financial reporting for the exploration and evaluation of minerals. It requires companies involved in this area to assess such assets for impairment and measure any impairment in accordance with AASB 136 Impairment of Assets. India does not have this particular practice for such companies. In India, financial reporting is prepared and presented in the same way, as other types of businesses, by companies engaged in the exploration for and evaluation of mineral resources.

Australia: AASB 7 Financial Instruments Disclosures. India: This standard is being developed at the time.

AASB 7 is the Australian equivalent of the IASB's (International Accounting Standards Board) IFRS (International Financial Reporting Standards) 7 Financial Instruments: Disclosures. The objective of this standard is to ensure that relevant disclosures in regards to financial instruments (financial assets, financial liabilities, and equity instruments) and their risk profiles are properly presented in the financial reports for users, so that these users can evaluate the financial position, performance, and cash flows of the company. The policy of liberalization and growth in international capital market activities, due to globalization, are generating the need for good corporate governance in Australia and India. Financial accounting information can be used as a governance tool, in the sense that it informs stakeholders on whether there has been efficient management of assets, prudent selection of investment projects and proper protection of stakeholders' interest by management.

In the absence of such explicit accounting standard on disclosure in India, the closest interpretation on the requirement of disclosure may be the revelation of 'materials facts' referred in AS 1. However, what is material or immaterial would be based on the decision of the organization preparing the financial reports. In other words, disclosure may very much be dependent on personal judgment in the absence of an explicit standard. India is in the process of developing this standard as the number of share investors and demand for sound disclosure of financial position increased over the years.

Australia: AASB 101 Presentation of Financial Statements. India: AS 1 Disclosure of Accounting Policies.

AASB 101 specifies the presentation requirements, structure guidelines, and content requirements for the presentation of financial reports. This standard aims to provide comparability between financial reports of a company in different periods and with other companies in the same or across different periods. AASB 101 laid out the various accounting principles that an accountant has to follow, such as going concern principle, accrual basis of accounting, consistency of presentation, materiality and aggregation, and offsetting.

In India, accounting standards do not prescribe a particular format of presentation for balance sheet and income statement. As far as India is concern, there is no equivalent accounting standard that mentions the principles of accounting. Instead, this AS 1 refers to accounting policies, which are recommendatory in character. The Indian accounting standard AS 1 defines the accounting policies that a company may follow while preparing the books of accounts, for example, it mentioned the depreciation method, the treatment of construction expenditure, and valuation of inventory that could be used.

Australia (Research & Development): AASB 138 Intangible Assets. India (Research & Development): AS 8 Accounting for Research and Development.

India's AS8 specifies that the total expenses incurred for research and development should be shown in the profit and loss account for the year. However, it also allows deferred expenses on research and development to be shown in the balance sheet under the heading of 'Miscellaneous Expenditure'. As for AASB 138, this Australian accounting standard requires all research expenses to be treated fully as expenses and once there is an inflow of revenue the development costs can then be capitalized in financial Accounts.

Australia: AASB 129 Financial Reporting in Hyperinflationary Economies. India: This standard does not exist till date.

AASB specifies the requirements for a restatement of financial reports in Australia. In a hyperinflationary economy, it is useful that the reporting of operating results in local currency is accompanied by a restatement of financial statements. Hyperinflationary may be the result of general, political, or economic forces. Although Australia is not a hyperinflationary economy, it established AASB 129 to assist users of financial information to take full account of the effects of inflation and loss of purchasing power associated with foreign investment that is located in a hyperinflationary economy and belongs to an Australian entity. Such standard does not exist in India.

Australia: AASB 141 Agriculture. India: This standard is being developed fastly.

AASB 14 prescribes the accounting treatment, financial statement presentation, and disclosures for companies engaged in agricultural activities. There is no specific accounting standard for such activities in India. In India, income from agriculture is tax-free.

CONCLUSION

The growth in global trading and international capital market activities generated a need for corporations to understand differences in accounting standards and practices in countries their interests. International differences in accounting rules also pose a significant challenge to investors and related parties interested in making cross-border comparisons of corporations. In developed economy of a country, regulators and standard setting company are making efforts in ensuring that financial information being prepared by corporate for users and stakeholders are consistent, comparable, and transparent and other quality. Harmonization of countries' accounting standards offers a solution for overcoming accounting diversity. However, there is still much to be achieved in this area.

The differences in accounting standards between Australia and India were highlighted in this paper. Although India does not have standards equivalent to some of Australia's accounting standards, it is putting effort behind developing some of these standards. Nevertheless, the diversity between these two countries is not considered significant when compared to some developing countries. Despite this diversity, both the Institute of Chartered Accountants of India and Australian Accounting Standards Board are committed to maintaining a sound accounting framework geared towards developments at international levels of standards. The embracement of international accounting standards will take time as domestic standards go through an adjustment, revision and development process.

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