

TO OUR READERS

Financial reporting by enterprises including governments is essential to judge their performance and financial health. Economic decisions are taken on the basis of figures arrived at through the process of accounting measurement. Therefore, bases and standards for measurement and communication of accounting information evolved by accountancy profession are significant to understand the financial statements. However, there have been significant variations among different countries owing to local laws, regulations and the shape of capital markets. This often acts as impediment in raising resources across national frontier. In the world of emergence of transnational corporation and globalisation, convergence of accounting standards is the centerpiece of the efforts to build a global financial reporting infrastructure and it has been duly recognised as the future of global accounting standards. To promote convergence of accounting standards world-wide, the International Accounting Standards Board (IASB) has created a set of high-quality accounting standards that can be consistently applied worldwide. There are two ways to achieve convergence - either, adopt International Financial Reporting Standards (IFRSs) or adapt their own standards to IFRSs. Europe and Australia have adopted IFRSs from 2005. Canada has a plan that it will replace national Generally Accepted Accounting Principals (GAAP) with IFRSs over the next five years. Various other countries such as India are adapting the IFRSs, i.e., while formulating accounting standards in India, the Accounting Standards Board of the Institute considers the IFRSs and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business

environment prevailing in India. The Financial Accounting Standards Board – the USA’s principal financial reporting rule-making body – has been working very closely with International Accounting Standards Board to eliminate differences between US GAAPs and IFRSs to the greatest extent possible. The announcement of issuance of a memorandum of understanding (“Norwalk Agreement”) in October 2002 marks a significant step towards formalizing their commitment to the convergence of U.S. and International Accounting Standards. Similarly, the IASB has undertaken convergence projects with other standard-setters also like China and Japan. Clearly then, the prospect for convergence of accounting standards is very good as convergence among major jurisdictions is achieved.

The ICAI’s conscious effort to bring the Indian accounting standards at par with the International Financial Reporting Standards by revising the existing accounting standards and issuing new standards corresponding to IFRSs enhances comparability of financial information required for evaluating cross border investment options and plays an important role in the global financial reporting. Further, since the Indian Accounting Standards are based on the IFRSs, Indian companies using the Indian Accounting Standards are experiencing lesser difficulties to tap the capital markets of foreign countries, as the Indian Accounting Standards are closer to the IFRSs. A recent newspaper report quoted Mr. Hugh Sandeman, Head of Business Development for India of London Stock Exchange, that Indian companies can now get listed on the London Stock Exchange by reporting their financial results based on Indian accounting standards



instead of the IFRSs.

The transition to IFRSs requires greater effort and those efforts would be rewarded. Global business requires a global capital market. The foundation of that market is good governance, good laws, and a set of globally accepted accounting standards. However, only convergence of accounting standards would not fulfill the desired objective, but the application of these standards is equally important. A globally harmonised set of accounting standards will not prevent or cure corporate failures, but it will ensure that investors and other interested parties have prior warning of impending dangers and that they have an opportunity to take remedial action at the earliest possible stage. The need for convergence and harmonisation is self-evident – but it can only become a reality as a result of commitment and concerned efforts by regulators, standard setters, financiers, business interests, the public at large and, of course, the accountancy profession.

Apart from convergence issues relating to Indian Accounting Standards vis-à-vis International Standards, this issue also examines specific areas in financial reporting like, Forex, government accounting, industry-specific issues, etc. We hope readers would find these of value in discharging their day-to-day professional duties.

- Editorial Board
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