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EMERGING ISSUES IN ACCOUNTING PROFESSION

Dr. SANTANU KUMAR DAS
Assistant Professor, P.G. Department of Business Administration,
Kalam Institute of Technology, Berhampur, Odisha

Dr. SUDHANSU SEKHAR NAYAK
Senior Lecturer, Department of Commerce, R. N. College,
Dura, Berhampur; Dist: Ganjam, Odisha

ABSTRACT

Various Scandals in the last decade all over the world like Enron Scandal (2001), World Com Scandal (2002), Tyco Scandal (2002), Health South Scandal (2003), Freddie Mac Scandal (2003), American Insurance Group Scandal (2005), Lehman Brothers Scandal (2008), Bernic Madoff Scandal (2008), Satyam Scandal (2009) had focused on the emergent need for the substantial improvements in the accounting and auditing Practices all over the world. To enhance the efficiency of the Capital Markets around the world, there is need for the firms to provide accurate, reliable and timely information to the market players i.e. investors, financial institutions, creditors. There are number of Emerging accounting issues to be considered in the recent years but in the current study we have pointed out some of the very main issues i.e. IFRS & Globalization, Sustainability Reporting, Reverse Mortgage, Global Code of Conduct & Environmental Accounting.

Keywords: Accounting, Auditing, Corporate Governance, IFRS

INTRODUCTION

To enhance the efficiency of the Capital Markets around the world, there is need for the firms to provide accurate, reliable and timely information to the market players i.e. investors, financial institutions, creditors. The essential components for the flow of the information to the capital markets participants are Accounting, Auditing and the Corporate Governance. However Various Scandals in the last decade all over the world like Enron Scandal (2001), WorldCom Scandal(2002),Tyco Scandal (2002),Health South Scandal(2003),Freddie Mac Scandal(2003),American Insurance Group Scandal(2005),Lehman Brothers Scandal(2008), Bernic Madoff Scandal(2008),Satyam Scandal(2009) had focused on the emergent need for the substantial improvements in the accounting and auditing Practices all over the world. There are number of Emerging accounting issues to be considered but in the current study we have pointed out some of the very main issues.

I. IFRS AND GLOBALIZATION:

With the rising level of trade and investment all over the world it is becoming more pervasive for the financial information to be reliable, transparent and more importantly comparable. Since each country has its own accounting standards

International Financial Reporting Standards aspires to make the international financial reporting comparisons easier. For example Indian GAAP is different from US GAAP. Synchronizing accounting standards all over the world is an ongoing process.

GAAP in India is influenced by the number of regulatory bodies like RBI, SEBI, and IRDA and also by the number of Act and Laws i.e. Companies Act, Income Tax Act, and Banking Regulation Act etc. The Regulatory and the legal requirement will prevail over the IFRS, in case of differences. ICAI is boosting the IASB's announcement in the country with an aim to facilitate Global harmonization of the Accounting Practices.

Adoption of IFRS by the Indian Corporates

Convergence with IFRS has gained impulse all over the world in recent years. Large number of countries including European Union, Australia, China, New Zealand, and Russia, Japan, Sri Lanka, Canada and Korea have also graved to adopt IFRS from 2011.In this phase of globalization, India cannot isolate itself from the developments taking place all across the world.

The economic environment shift in India in last few years has led to increasing consideration to the accounting standards as a means towards ensuring transparent financial reporting by the firms.

The main aim of Institute of Chartered accountant of India has always been to frame high quality accounting standards and it has been succeeded in doing it. As the world globalizes the convergence of National Accounting Standards with the IFRS has increased significantly.

As the world is globalizing, the various discussion on convergence of the Indian Generally Accepted Accounting Principles with IFRS has significantly increased.

Some of the main developments are as:

- Formation of Task Force of IFRS by the Council of ICAI
- Recommendation Submission of the IFRS Task Force to the Council
- Entire adoption of IFRS from the accounting period starting on or after 1 April 2011
- IFRS is proposed to be applicable to and public interest entities such as insurance Companies, banks and large sized entities
- Involvement of large number of regulating bodies such as MCA, RBI, IRDA, Tax authorities and SEBI

- Outlining of Schedule VI and the Accounting Standard 1 (Exposure Draft) in consistent with IFRS
- Presentation of the Convergence Strategy by Technical Directorate of ICAI on 02.02.2009:

ICAI has started the procedure of issuing the IFRS equivalent Accounting Standard with following projected changes:

- Removal of all the alternative treatments
- Requirement of the Additional disclosures
- IFRS number will be given in the Parenthesis along with the AS number
- IFRICs will be issued as appendices
- ICAI has formed a Group in contact with the government & other regulatory authorities and the group has also established separate core groups to discover the inconsistencies between IFRS and the various relevant acts.

Benefits in IFRS Adoption

- Increased Access to International Capital Markets
- Transparent Reporting leading to better Investment Opportunities
- Multiple Reporting Avoidance
- Reduction in the cost of Capital.

Challenges in IFRS Adoption

Despite of various benefits there are also various protests that will be confronted on the way of IFRS convergence.

- **People** :Shortage of skilled Manpower and Resources
- **System and Process** :Huge cost involved in the enactment of IT System
- **Reporting** Acceptance by Tax Authorities and other Regulatory Authorities, Problems in Accounting Reporting Policies, Analysis &Disclosures.
- **Business:** Management of the expectations of the Market & Relationship with the Investors.

II. Sustainability Reporting

"For an organization or community to be sustainable (a long-run perspective), it must be financially secured (as evidenced through such measures as profitability), it must minimize (or ideally eliminate) its negative environmental impact, and it must act in conformity with society's expectations"- Deegan, 1999.

In India around more than 80 companies have adopted the sustainability reporting practices by using the model which is being developed by 'Global Reporting Initiative'. The key business drivers for the companies to adopt the sustainability reporting are innovation, motivation of employees, social and Economic considerations .In India Brand & ethical consideration; strengthening reputation inspires the companies to adopt this concept.

Benefits of sustainability reporting

- An effective sustainability reporting cycle should benefit all reporting organizations.
- Increased understanding of risks and opportunities
- Emphasizing the link between financial and non-financial performance
- It Influences the long term business plans, management strategy and policy.
- Costs reduction and improving efficiency
- Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives
- Avoiding being implicated in publicized environmental, social and governance failures.

External benefits of sustainability reporting can include:

- Reverses the negative impacts of environmental, social and governance.
- Improving the reputation and brand loyalty.
- Enabling external stakeholders to understand the organization's true value, and tangible and intangible assets.
- Demonstrating how the organization influences, and is influenced by, expectations about sustainable development.

Need for Sustainabilty Reporting

To improve the efficiency of the Corporate

To Enhance the Reputation of the Management

Sustainability Reporting is required to meet the rising competition

In India very less reporters have sustainability strategy with well Planned objectives and SMART (Specific, Measurable, Achievable, Realistic and Time-bound) targets. This indicates that although many Indian companies have started reporting their sustainability performance but they have not imparted their attempts under a well defined sustainability strategy. Some of the Companies which have started the sustainability practices in India are:

- Coca Cola
- Ford Motor
- Wipro,
- Infosys, TCS,
- ITC
- Intel
- Nike

- Chevron
- Pepsi co

CSR and Sustainability reporting, is a recent trend which has developed over the last two decades. Many companies now develop an annual sustainability report and there are large range of ratings and standards. There are a number of reasons that companies choose to produce these reports, but at their core they are intended to be "accountability & vessels of transparency ". There is a greater need for the corporate to adopt the sustainability Reporting practice.

III. Reverse Mortgage Scheme

Reverse Mortgage Scheme is a scheme developed in 2007 in India and is already a very popular scheme in the west. The reverse mortgage scheme (or lifetime mortgage) is a loan which available only to the senior citizens. As its name suggest it's simply opposite of the of a normal housing loan.

Objective of the scheme

The main objective of the scheme is to provide a source of additional income for senior citizens who own self acquired House property in India.

Working of the scheme

Under this scheme, once the house is pledge for the 'reverse mortgage', the bank will reach at the value of the house after carrying out its due diligence. After creation of room for interest costs and the fluctuation of the price, the bank will pay the balance amount to the citizen depending upon the payment option that is being opted. On every payment that the bank gives to the citizen the equity in the house decreases. This period of credit is open, generally for a period of 15 years. Even after the tenure fixed the citizen can continue to live in their house. Only in case if the resident permanently leaves the property or in case if he/she dies, the lending institution will sale out the property, and from the sales proceeds it will take the amount that is payable by the citizen to the bank and the balance amount will be given to the legal heirs. The bank will also do the period valuation of the property, generally after five years, to ensure that the value of the house is higher than the total amount payable by the citizen.

Features of the loan

The guidelines prepared by Reserve Bank of India of on reverse mortgage in have the following attributes:

- To be eligible for the Reverse Mortgage Scheme the Owner of the house should be above 60 years of age.
- The maximum amount of the loan benefit is up to the 60 per cent of the value of the residential property.
- The maximum period of time of the mortgaging the property is 15 years with a bank or HFC (housing finance company).

- The borrower can opt for a monthly, quarterly, annual or lump sum payments at any point, as per his requirement.
- The bank or HFC will do the revaluation of the property after every five years.
- The money obtained through reverse mortgage will not attract any tax liability as it is considered as loan and not income.
- Reverse mortgage rates can vary as per the market conditions depending on the interest rate regime opted by the borrower. And hence can be floating or fixed.

- **Situation in case of daeth of both of the spouse**
  In Case if either of the spouses dies, than the other can still continue to live in the house. If both of them dies, the bank will give their Legal heirs two options; for either settling the overall outstanding amount of the loan and hold the house, or the bank will sell the house, and use the proceeds from the sale of the house to settle the outstanding loan and hand over the balance amount to the heirs.

- **Banks offering the scheme**
  Some of the financial institutions providing the scheme in India are Dewan Housing Finance, State Bank of India, Punjab National Bank, Bank of Baroda, and Central Bank of India, Union Bank of India, LIC Housing Finance, Indian Bank, Andhra Bank, Corporation Bank, Canada Bank. Only the **Senior citizens are eligible for the scheme.**

Why the scheme is not gaing momentum in india

- Recent reports has indicated that a very less percentage of senior citizens have taken advantage of the Scheme since it is coming into action. This could be perhaps due to unawareness about the product among the people.
- Secondly, the Indian banking industry has limit the availability of the loan amount at Rs 50 lakh (Rs 5 million), rather than for providing to an equitable percentage of the property’s value, and limits the loan period to the period of 15 years.
- The product is still emerging and may take on new ambit depending on how the banks may present its consumer appeal.

IV. Global Code of Conduct

Large number of scams and scandals in the last decade like Enron, WorldCom, Lehman Brothers, Satyam scandals are the eyes openers and has focused on need for having a global code of conduct and ethics. The International Ethics Standards Board for Accountants (IESBA), an independent standard-setting board within the International Federation of Accountants (IFAC), has recently updated and strengthened the independence requirements contained in the IFAC Code of Ethics for Professional Accountants (2011).Some of the corporate who have opted for it are: Pepsico ,Dell, Coca Cola. There is a greater need to protect the fundamental attributes of the profession and for that we need to strengthen the issue.

V. Environmental Accounting

An enterprise is a corporate citizen. Every corporate has the paramount responsibility to make efficient use of material and resources. No doubt that India is a developing county and growing at a very fast pace but the sad part is that we are neglecting the social responsibility for the better growth and development of the Indian Economy.

Responsibility towards the environment has become one of the most prominent areas of social responsibility. Currently it has been that there is a rising concern for the degradation of the environmental resources taking place in the form of pollution of various types, viz. water pollution, air pollution, sound pollution, Erosion of soil, deforestation, etc. It has become worldwide issue and phenomenon. It is spoiling health of human's human, reducing economic productivity and has also resulted in loss of amenities. The developing countries like India are facing the twin problem of protecting the environment and encouraging economic growth & development. A trade-off between environmental protection and economic development is required. A careful assessment of the benefits and costs of environmental damages is requisite to find the safe limits of degradation of environment and the required level of development. The cost of the damage to the environment in India is estimated to about Rs. 34,000 cr per year, about 9.5 per cent of gross domestic product. But until or unless the sufficient accounting work is done either by the individual firm or by the Government itself, it cannot be ascertained that both has been fulfilling their responsibilities towards environment or not. Therefore, there is a need for the emergence of Environmental Accounting.

Conclusions:

There is a need for the firms to provide accurate, reliable and timely information to the players in the market i.e. investors, financial institutions and creditors for enhancing the efficiency of the Indian Capital Markets. Auditing, Accounting and corporate governance are the important components for the flow of the information to the capital markets. However Various Scandals in the last decade all over the world like Enron Scandal (2001), WorldCom Scandal (2002), Tyco Scandal (2002), Health South Scandal (2003), Freddie Mac Scandal (2003), American Insurance Group Scandal (2005), Lehman Brothers Scandal (2008), Bernic Madoff Scandal (2008), Satyam Scandal (2009) had focused on the emergent need for the substantial improvements in the accounting and auditing Practices all over the world. There are number of Emerging accounting issues to be considered but in the current study we have pointed out some of the very main issues i.e IFRS & Globalization, Sustainability Reporting, Reverse Mortgage, and Global Code of Conduct & Environmental Accounting. The economic environment shift in India in last few years has led to increasing consideration to the accounting standards as a means towards ensuring transparent financial reporting by the firms. CSR and

Sustainability reporting, is a recent trend which has developed over the last two decades. Many companies now develop an annual sustainability report and there are a wide range of ratings and standards around. Reverse Mortgage Scheme is another important emerging issue which is gaining momentum. Various Scams all over the world has also focused on need for having a global code of conduct and ethics. An enterprise is a corporate citizen. Every corporate has the paramount responsibility to make efficient use of material and resources. No doubt that India is a developing county and growing at a very fast pace but the sad part is that we are neglecting the social responsibility for the better growth and development of the Indian Economy and hence there is an emerging need for Environmental Accounting.

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