MCM-505

ACCOUNTING THEORY & PRACTICES

UNIT-9 FINANCIAL ACCOUNTING AND REPORTING: RECENT DEVELOPMENTS

(M. COM. SECOND SEMESTER)

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International Financial Reporting Standard (IFRS)

- International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of financial statements of companies. International Financial Reporting Standards has become numero-uno accounting framework with extensive worldwide recognition. In 2001, the International Accounting Standard Board (IASB) substituted the International Accounting Standards Committee (IASC) as the organization liable for setting IFRS. The term IFRS has a narrow and a broad meaning. Narrowly, IFRS signifies the new number series of pronouncements that IASB has issued as divergent from the IAS series issued by its predecessors.

eXtensible Business Reporting Language (XBRL)

- Amidst the deferments like IFRS, Direct Tax Code and GST in Indian scenario, the Ministry of Corporate Affairs (MCA) in India introduced a couple of new requirements which will change the manner in which companies compile, present and file financial information. It will include amendments to the prescribed format of balance sheet and profit and loss accounts as well as introducing eXtensible Business Reporting Language (XBRL) for annual corporate (return) filings; both of these are steps in the right direction for the bigger change which is expected to follow.
- **Format of balance sheet and profit and loss accounts:** Indian companies have been required to use the format of financial statements prescribed in ***Schedule VI to the Companies Act, 1956***, and since the format has largely remained unchanged for several decades, the financial statements of Indian companies have become outdated in relation to the companies in other parts of the world.

XBRL for Annual Filing of Different Returns

- The Ministry of Corporate Affairs has mandated that certain companies in India file their annual financial information with the MCA for the year ended 31 March 2011 using XBRL. The use of XBRL to convert financial information into machine readable data is already being used in other economies of the world such as the USA and the UK.
- XBRL, eXtensible Business Reporting Language, is a royalty-free, international information format designed specifically for business information, also referred to as 'interactive data' by the SEC. The idea behind XBRL is simple: instead of treating business information as a block of text – as in a printed paper document or a standard Internet page – it provides a unique, electronically readable tag for each individual disclosure item within business reports.
- In 1998, Charlie Hoffman, a single CPA who worked for a small CPA firm in Washington state, had the idea of XBRL as a way of totally transforming business reporting.

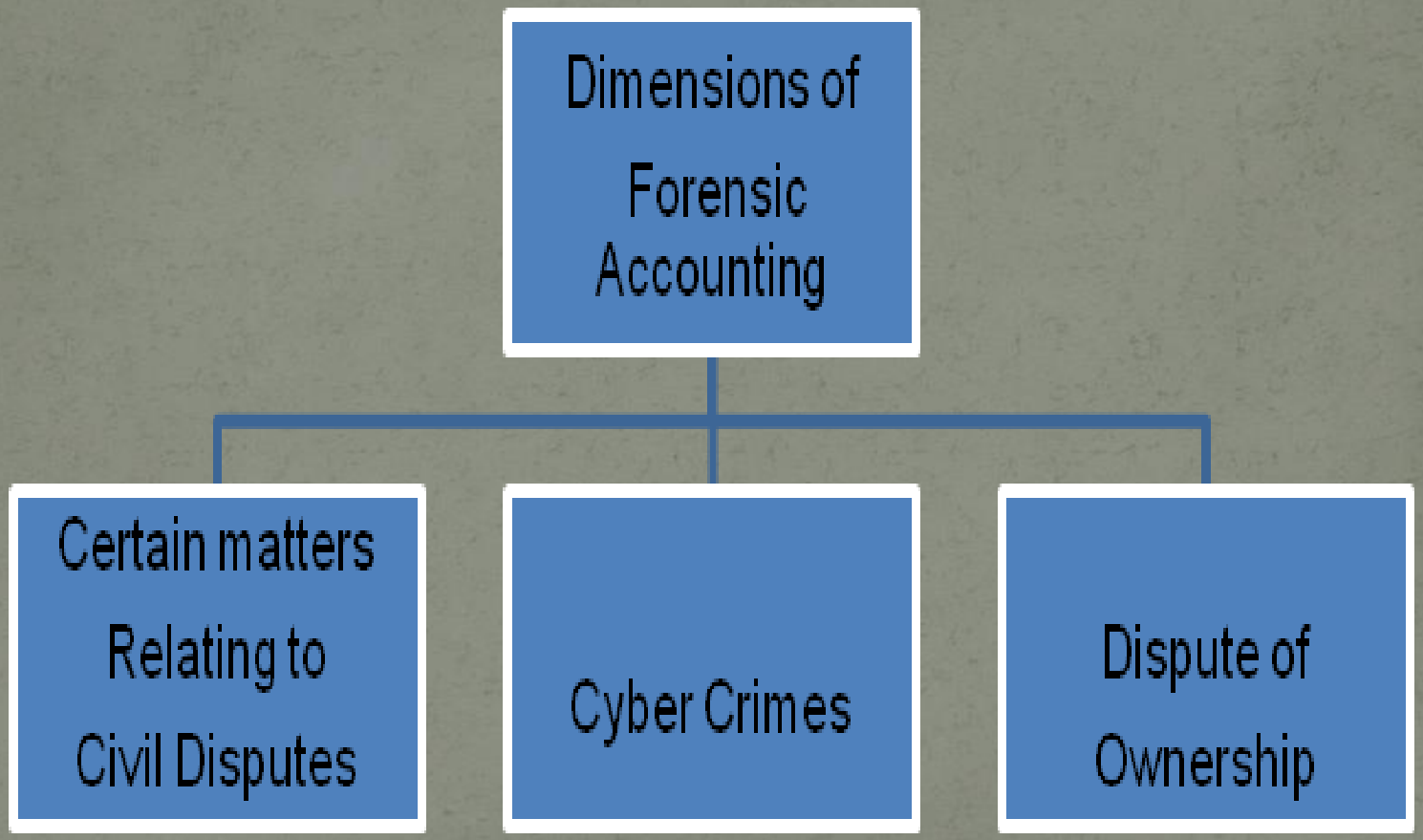
Benefits of Using XBRL

- By using XBRL, companies may automate the processes of their financial data collection. For example, data from different company divisions with different accounting systems can be assembled on real time basis and at a very lower cost, if the sources of information are upgraded to this new language .
- XBRL will also help in streamlining the preparation of business and financial reports for decision making. It will significantly improve the ability of accountants in publishing financial information to investors, regulators, analysts, lenders, and other key stakeholders in a more precise and direct manner.
- XBRL may also facilitate convergence of accounting standards by the ability to align financial concepts among public taxonomies.
- XBRL also facilitates principle-based accounting because it is principle based and not rule based.
- XBRL better enables the accounting profession in the accomplishment of its primary mission to protect the public interest by improving investor access to the capital markets and increasing analyst coverage of both small and large companies through a reduction in the cost associated with covering a company.

Forensic Accounting

- Forensic Accounting is basically an integration of accounting, auditing and investigative skills in a systematic manner. The term ‘Forensic accounting’ was coined by Maurice E. Peloubet, who explained it as “Financial statements have some but not all the characteristics of Forensic Accounting”. If we go to the dictionary meaning of it, the term ‘forensic’ means ‘of or used in courts of law’.
- Thus, Forensic Accounting as a special practice area which provides accounting analysis which is acceptable to the court and which forms the basis for discussion, debate and ultimately the settlement of disputes. Forensic accounting looks beyond numbers only and primarily focuses on the exact reality of the situation by applying all three i.e. intelligent, emotional and social quotients.

Dimensions of Forensic Accounting



Human Resource Accounting

- Human Resource Accounting tends to measure the cost and value of the people (i.e. of employees and managers) working in the organisation. It computes the cost incurred in recruitment, training and development of workforce.
- It also finds out the present economic value of its employees and managers. After computing the cost and value of its employees and managers, the accountant prepares a report which is called HRA Report. It is submitted to the top management for necessary action.

Methods of Human Resource Accounting:

- There are different methods of human resource accounting, some of which are as follows :
- Actual Cost Method,
- Replacement Cost Method
- Standard Cost method, etc.

Definition:

- **According to American Accounting Association**,"HRA is the process of identifying and measuring data about human resources and communicating this information to interested parties."

Benefits of Human Resource Accounting

It provides inputs for manpower planning: HRA provides useful information about the cost and value of human resources. It also indicates the strengths and weakness of the human resources which helps the managers in planning and making the right decisions about human resources.

Information for formulating HR Policies: HRA provides useful information for formulating sustainable personnel policies about promotion, congenial working environment, job satisfaction of employees and many other dimensions of Human Resource Management.

- It ensures optimum utilization of human resources.
- Human resource accounting increases morale and motivation of employees and mangers of the organization.

Environmental Accounting/Green Accounting

- Environmental Accounting is a term which is used to describe different aspects of this emerging field of accounting. It is a process of identifying and measuring data about the environment costs incurred by an organization in the process of manufacturing and trading and communicating the same to the management.
- Environmental accounting has two aspects viz; management aspect and financial aspect. Accordingly it is termed as Environmental Management Accounting (EMA) and Environmental Financial Accounting (EFA).
- The focus of EMA is basically as a management accounting tool which is used to formulate and take internal business decisions, especially for environmental management activities of the organisation.

Difference between Management Accounting, Financial Accounting and Environmental Management Accounting

- **Difference between Management accounting and Environmental Management Accounting**:
- Management Accounting entails the identification, collection, estimation, analysis, and use of cost, or other information used for organizational decision-making. Environmental Management Accounting is Management Accounting with a focus on materials and energy flow information, with environmental cost information.
- **Difference between financial accounting and Environmental Financial Accounting**:
- Financial Accounting comprises the development and organizational reporting of financial information to external parties, such as stockholders and bankers. Environmental Financial Accounting builds on financial Accounting, focusing on the reporting of environmental liability costs with other significant environmental costs.

Conclusion

- With the emergence of Globalization, entire world has come closer and territorial boundaries are not treated as a hurdle at least in Trade and Commerce. If you look at Indian economy, you will find that many foreign multinational companies are operating in India and many Indian companies are having their operations abroad which proves that markets are becoming 'Globalised', getting closer to each other. This globalization has caused elimination of regional boundaries and companies are feeling at home in every part of the world. All this has changed the environment of business and poses very unique challenges before the entrepreneurs. One of the important challenge is related to the accounting and reporting of the business due to different policies, currency, accounting practices prevailing in different part of the world. In order to overcome this problem IFAC has issued IFRSs to ensure uniform financial reporting practices across the globe. Other than IFRS there are many other developments which has actually changed the face of financial accounting and reporting.

References

- SILM developed by Uttarakhand Open University for MCM-505 (Accounting Theory and Practices), Year 2017,