

Adaptability of Indian Accounting Standards in HDFC Bank Ltd.

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Abstracts

Indian Accounting Standards provides reliable and relevant information to the different stakeholders for their financial and investment decision making. Through the adoption of corporate disclosure practices, a proper recording and classification of economic and financial transactions in particular business can be followed in its truest manner. In past research studies in the arena of corporate financial disclosure, researchers have investigated the manner of disclosure in various corporate sectors. Through this research, Efforts may be executed to check these variations and their ill-effects on stakeholder's interests. The main objective of various Accounting Standards Issued by The Institute of Chartered Accountants of India and also check the adaptability status of the company. This research study was based on the secondary data derived from the annual financial disclosure presented by the corporate sector. The research design for this study was descriptive as well as analytical.

The result of the study was that HDFC Bank Limited does not focus on adopted in Accounting Standards. HDFC Bank Limited is a company that did not deliberately follow most of the accounting standards and the company not adopting proper Indian Accounting Standards.

Keywords: Corporate financial disclosure, Indian Accounting Standards, Adaptability status.

Introduction

Today, transparency is realizing in its new meaning of more comprehensive and proactive disclosure instead of the release of corporate governance policies in a cosmetic way. The new concept of transparency putting more responsibilities on the corporate not only lets the truth be available to the public but imposes to disclose it to different stakeholder groups. Transparency and disclosure (T&D) are essential elements of a robust corporate governance framework, as they provide a strong base for investment decision making by the shareholder, stakeholders, and potential investors in relation to capital allocation, corporate transaction, and financial performance monitoring. Indian accounting standards may help in this endeavor.

The wider recognition of social responsibility of business for the last few decades has important implications of IAS in view of corporate disclosure practices. This has emphasized the efficient allocation of society's resources and wealth. Now, groups other than shareholders such as employees, local communities, social groups, and the general public have also interested to get reliable information through fair and transparent corporate financial disclosures. This research study may prove beneficial for overall society, as it may be meaningful research to trace out reasons for variations between rule, regulation, and follow-up practices adopted by the corporate sector.

Introduction of HDFC Bank Limited

HDFC Bank was incorporated in August 1994. The event Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Federal Reserve System Bank of India (RBI) to line up a bank within the private sector, as a neighborhood of RBI's liberalization of the Indian banking industry in 1994. The bank was incorporated in August 1994 within the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank comes in operations as a Scheduled full-service bank in January 1995.

HDFC is India's premier housing non depository financial organization and enjoys an impeccable diary in India also as in international markets. Since its inception in 1977, the Corporation has maintained consistent and healthy growth in its operations to remain the market leader in mortgages. Its outstanding loan portfolio covers overflow 1,000,000 dwelling units. HDFC has developed significant Focus in retail mortgage loans to different market segments and also features an outsized corporate client base for its housing-related credit facilities. With its experience within the financial markets, strong market reputation, large shareholder base, and unique consumer franchise, HDFC was ideally positioned to plug a bank within the Indian environment.

Relevance of the Study

Indian Accounting Standards provides reliable and relevant information to the different stakeholders for their financial and investment decision making. Through the adoption of corporate disclosure practices, a proper recording and classification of economic and financial transactions in particular business can be followed in its truest manner. This adds a fair and transparent image of the business and authentic operational results over a period of time can be provided. The future trends of business can also be estimated with greater accuracy if the financial disclosure is prepared as per rule and regulations. Thus, it can be firmly stated that the corporate sector should include all types of required financial and other information in its truest sense which is relevant for various interested stakeholder groups.

Review of Literature

Literature review shows depth the study of different research articles, books, and information about the subject of chosen research work. The main objective of this study is to analyze the disclosure practices adopted by Indian companies. For this purpose, a review of concepts, finding, and conclusion are as follows:

Cooke, T.E. (1992) examined the association between the levels of disclosure and three corporate attributes - size, listing status, and nature of the industry- for 35 Japanese companies. He constructed an index of disclosure consisting of 165 items, which consisted of both statutory and voluntary items of information. This study was a unique one in the sense that the size of the company was measured in terms of a composite variable i.e., a linear combination of eight alternate indicators of size - capital stock, turnover. A number of shareholders, total assets, current assets, fixed assets, shareholders funds, and bank borrowings. He concluded that the extent of disclosure was positively and significantly associated with three explanatory variables - size, listing status, and nature of the industry.

Christian Leuz (2001) this study investigates whether firms using the U.S. generally accepted accounting principles (GAAP) vis-à-vis international accounting standards (IAS) exhibit differences in several proxies for information asymmetry.

Healy and Palepu (2001) discussed three proxies for voluntary disclosure used in prior studies: management forecasts, the association for investment management and research scores, and self-constructed measures (disclosure indices).

Jermakowicz, K. and Gornik, Sylwia (2002) this study examines the implementation of International Financial Reporting Standards by European Union (EU) companies.

Miller and Bahnsen, (2010) explained that the purpose of accounting theories was to ensure better accounting practice. In pursuit of this, a normative accounting framework used to search for practices that should be used instead of describing practices that are actually used. They argued that accounting and reporting should be prescriptive because pragmatic considerations contaminate them rather than improve them.

Sharma (2020) in their research “An Effective Implementation of Environmental Audit” stated that the effectiveness of environmental audit practices. Environmental audit assists in gaining a competitive advantage over competitors by better decision making and reducing the adverse environmental effects through enhanced designs, products, and processes. But, contradictory to it, companies don’t implement it, as they are comprehended of losing their secrecy and confidentiality. Therefore, environmental audits should be made more absolute, objective, credible, and transparent in order to be successful.

Research Gap

In past research studies in the arena of corporate financial disclosure, researchers have investigated the manner of disclosure in various corporate sectors. Some researcher has presented features of research. Another researcher has investigated social and environmental disclosure. Secondary Indian Accounting Standards has issued in 1977 the first time by the board of Indian accounting standards, but there has no research to check variations between their theories and actual follow-up till now.

Through this research, Efforts may be executed to check these variations and their ill-effects on stakeholder’s interests. Accounting standards have also some limitations if all the accounting standards would be mandatory for

all the types of corporate concern, then how they may be benefited for government and all the related stakeholders. This phenomenon will be rigorously studied in this research.

Objectives

The Research objectives help the researcher to avoid the collection of data which are not strictly necessary for understanding & solving problem that has defined. This research study will be conducted for fulfilling the following objectives-

- To study of various Accounting Standards Issued by The Institute of Chartered Accountants of India.
- To study the changes in financial statements and reporting of information due to the expansion of Accounting Standards.
- To take an evaluation of the profile of Large Scale Companies in Rajasthan and their financial disclosure.
- To critically view the financial disclosure procedure of Multinational Corporate with reference to selected corporates.
- To analyze the impact of globalization on financial reporting and policy.
- To take an evaluation of the problems faced by Large Scale Corporate while implementing Accounting Standards in their corporate.

Hypothesis

H01 -There is no significant difference between theoretical aspects and the adoption of Indian Accounting Standards.

H02 - There is no transparency among financial disclosure presented by corporate concerns.

H03 –The corporate sector does not provide the correct financial information to different stakeholders.

Research Methodology

This research study was based on the secondary data derived from the annual financial disclosure presented by the corporate sector. Data relating to history, growth, and development of industries was collected from books, journals related to industries and published papers, reports, and articles from the various newspapers, bulletins published by the industries and websites. The field survey will also be conducted to get a realistic view of information. As there can be various types of data of sample companies hence, simple random sampling will be useful and will provide for satisfactory results. Random sampling is also more reliable than another sampling method.

Data - The Data collected from the primary and secondary sources. Primary data was collected with the help of personal interviews from managing a staff of companies. Secondary data in view of company disclosures was collected with the help of annual reports, websites of the corporate sector, journals, magazines, and newspapers. For fulfilling the objective of the study, HDFC Bank Ltd. included for research and status took for 2022-23

Research design & tools -The research design for this study was descriptive as well as analytical. It will be carried out the fulfilling desired objectives and it was collected a large number of data from the selected corporate sectors. For the data analysis, various statistical tools like- Mean, Standard deviation, Coefficient of Variation percentages, and other statistical tools were used for analysis and to test the hypothetical relationship among different variables. For the presentation of data, various charts and graphs were also being executed.

Limitation of the Study- The study covers accounting standards as issued and applicable 2022-23. The study of changes in reporting is limited to only two companies selected for study and whatever information obtained for research that is considered according to the objectives of the research. Analysis and conclusions is based on such information and personal survey.

Analysis and Interpretations

Table 1 showing Ind AS adoption status of **HDFC Bank Ltd**

The bank not adopted Ind AS yet.

Table 1: Indian accounting Standard adoption status of HDFC Bank Limited

Indian Accounting Standard No.	Description	Adoption Status of HDFC Bank Ltd.	HDFC Bank Ltd.
Ind AS-101	First-time adoption of Ind AS	Not adopted (2022-23)	-1
Ind AS-102	Share Based payments	Not adopted (2022-23)	-1
Ind AS- 103	Business Combination	Not adopted (2022-23)	-1
Ind AS-104	Insurance Contracts	Not adopted (2022-23)	-1
Ind AS-105	Non-Current Assets Held for Sale and Discontinued Operations	Not adopted (2022-23)	-1
Ind AS-106	Exploration for and Evaluation of Mineral Resources	Not adopted (2022-23)	-1
Ind AS-107	Financial Instruments: Disclosures	Not adopted (2022-23)	-1
Ind AS-108	Operating Segments	Not adopted (2022-23)	-1
Ind AS-109	Financial Instruments	Not adopted (2022-23)	-1
Ind AS-110	Consolidated Financial Statements	Not adopted (2022-23)	-1
Ind AS- 111	Joint Arrangements	Not adopted (2022-23)	-1
Ind AS- 112	Disclosure of Interests in Other Entities	Not adopted (2022-23)	-1
Ind AS- 113	Fair Value Measurement	Not adopted (2022-23)	-1
Ind AS- 114	Regulatory Deferral Accounts	Not adopted (2022-23)	-1
Ind AS-115	Revenue from Contracts with Customers	Not adopted (2022-23)	-1
Ind AS-1	Presentation of Financial Statements	Not adopted (2022-23)	-1
Ind AS- 2	Inventories	Not adopted (2022-23)	-1
Ind AS-7	Statement of Cash Flows	Not adopted (2022-23)	-1
Ind AS-8	Accounting Policies, Changes in Accounting Estimates and Errors	Not adopted (2022-23)	-1
Ind AS-10	Events after Reporting Period	Not adopted (2022-23)	-1
Ind AS-11	Construction Contracts	Not adopted (2022-23)	-1
Ind AS-12	Income Taxes	Not adopted (2022-23)	-1
Ind AS- 16	Property, Plant and Equipment	Not adopted (2022-23)	-1
Ind AS- 17	Leases	Yes adopted (2022-23)	1
Ind AS-18	Revenue	Yes adopted (2022-23)	1
Ind AS-19	Employee Benefits	Yes adopted (2022-23)	1
Ind AS- 20	Accounting for Government Grants and Disclosure of Government Assistance	Yes adopted (2022-23)	1
Ind AS- 21	The Effects of Changes in Foreign Exchange Rates	Yes adopted (2022-23)	1
Ind AS-23	Borrowing Costs	Yes adopted (2022-23)	1
Ind AS- 24	Related Party Disclosures	Not adopted (2022-23)	-1
Ind AS- 27	Separate Financial Statements	Not adopted (2022-23)	-1
Ind AS- 28	Investments in Associates and Joint Ventures	Not adopted (2022-23)	-1
Ind AS-29	Financial Reporting in Hyper inflationary Economies	Not adopted (2022-23)	-1
Ind AS- 32	Financial Instruments: Presentation	Not adopted (2022-23)	-1
Ind AS- 33	Earnings per Share	Not adopted (2022-23)	-1
Ind AS- 34	Interim Financial Reporting	Not adopted (2022-23)	-1
Ind AS- 36	Impairment of Assets	Not adopted (2022-23)	-1
Ind AS- 37	Provisions, Contingent Liabilities and Contingent Assets	Not adopted (2022-23)	-1
Ind AS- 38	Intangible Assets	Not adopted (2022-23)	-1
Ind AS- 40	Investment Property	Not adopted (2022-23)	-1
Ind AS-41	Agriculture	Not adopted (2022-23)	-1
			-29

Source: Annual Reports of HDFC Bank Ltd, 2022-23.

Mean	-0.7073
S.D.	0.7156
C.V. (%)	-101.17

In Table-1

Yes adopted, means – (1) Ind AS must to follow for company and followed by the company.
 Not adopted, means- (-1) Ind AS must to follow for company but not followed by the company.

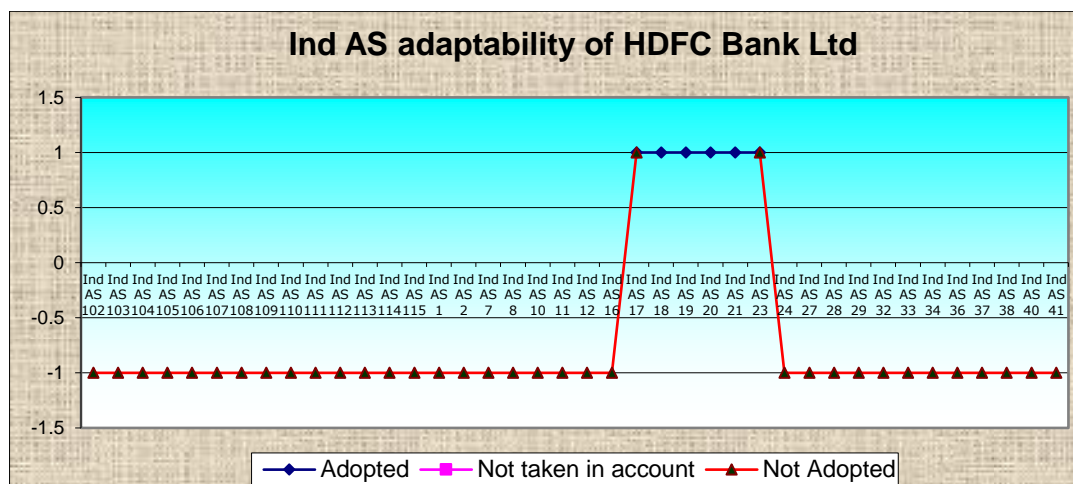


Fig. 1: Graphical presentation of Ind AS status of HDFC Bank Ltd.

Observation: Although HDFC Bank has not adopted Ind AS till now, but some Ind AS are quite resemble to existing GAAP adopted by the bank. As can be seen from the Table-1 and Fig. 1, Ind AS 21 (The Effects of Changes in Foreign Exchange Rates), Ind AS 23 (Borrowing Costs), Ind AS 19 (Employee Benefits); Ind AS 20 (Accounting for Government Grants and Disclosure of Government Assistance), Ind AS 17 (Leases) and Ind AS 18 (Revenue) have been complied in this manner by HDFC Bank.

Other than these, remaining Ind AS have not been adopted yet by HDFC Bank. The reason is given here under: The implementation of IND-AS by banks requires certain legislative changes in the format of financial statements to comply with disclosures required by IND-AS. The change in format requires an amendment to the third schedule of the Banking Regulation Act, 1949 to make it compatible with the presentation of financial statements under IND-AS. The RBI would issue necessary instructions / guidelines and clarifications to facilitate the implementation of the new accounting standards. Considering the amendments needed to the Banking Regulation Act, 1949, as well as the level of preparedness of several banks, the RBI vide its Statement on Developmental and Regulatory Directors' Report HDFC Bank Limited Annual Report 2017-18 37 Policies dated April 5, 2018 deferred the implementation of IND-AS by one year by when the necessary legislative amendments are expected. Scheduled commercial banks in India will now be required to prepare IND-AS based financial statements for the accounting periods beginning from April 1, 2023 onwards with comparatives for the periods beginning April 1, 2022.

Impact: As a result of observed Indian Accounting Standard status for HDFC Bank, following are the expected impact:

- Shareholders and other interested parties are continue to get information arranged according to ongoing method of presentation of bank reports because Ind AS will be adopted by banking sector from April, 2019 onwards.
- Although some information can be found according to Ind AS whose presentation is same in both GAAP and Ind AS.

Hypothesis Testing

On the basis of data collection, the researcher identified the following broader hypothesis result for this research study.

H01 -There is no significant difference between theoretical aspects and the adoption of Indian Accounting Standards.

On the basis above analysis, it can be seen that the adoption of accounting standards in Ind AS- 17, Ind AS- 18, Ind AS- 19, Ind AS- 20, Ind AS- 21, and Ind AS- 23, therefore it can be said out of 41 accounting standards only six AS adopted by the company which is the very minor amount, hence this hypothesis has been accepted.

H02 - There is no transparency among financial disclosure presented by corporate concerns.

On the basis of AS- 107, it can be said the company not adopted this accounting standard, so this hypothesis also this is also accepted.

H03 –The corporate sector does not provide the correct financial information to different stakeholders.

On the basis of AS- 29, it can be said the company not adopted this accounting standard, so this hypothesis also this is also accepted.

Conclusion and Suggestion

On the basis of the above analysis, It can be concluded that HDFC Bank Limited does not focus on adopted in Accounting Standards. HDFC Bank Limited is a company that did not deliberately follow most of the accounting standards. The company focusing only on six accounting standards out of 41, which is a very minor amount. Therefore it can be said that the company does not adopt most of the accounting standards. It is also observed that the company does not adopt AS- 107, it means company transparency policy is not proper. A company information system is also week. Therefore it can be said the company not adopting proper Indian Accounting Standards. If the company thinks about good governance then the company should follow accounting standards.

Scope of the Study

This research may be helpful for all the stakeholders, which demands correct financial information. It is well-known fact that there are 33 Indian Accounting Standards (IAS) established by Indian Accounting Standards Board (ASB) to remove variations for resolving several accounting and financial problems and to move towards standardization practices. ASB intent to harmonize the diverse accounting policies followed in the preparation and presentation of financial statement by different corporate, so as to facilitate intra-firm and inter-firm comparison. Although all the accounting Standards may not be applicable in all companies. As per their limitations, these are divided into mandatory and voluntary. It is generally seen, corporate is not concern properly IAS in their practices. To trace out the reasons for the same will be the essence of this research study.

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