
**CHALLENGES AND PROBLEM IN FASB & IASB RULE IN INDIAN COMPANIES
AND STOCK BASED COMPENSATION: A STUDY**

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Abstract

This research focus on the challenges and problem in FASB & IASB rule in Indian companies and stock-based compensation. This research of Financial Accounting Standards Board and the International Accounting Standards Board has released their long-awaited converged standard on revenue recognition after more than a decade of effort. The standard for the recognition of revenue from contracts with customers is intended to improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. Another arrangement of problems results from this best down way to deal with accounting change. Different ways have been attempted to ease or tackle the problems that come about because of receiving new accounting rules. Some have worked superior to other people. Stock-based compensation plans likewise have included complexities in zones, for example, valuation, conceded tax accounting, income reporting, exposures, and earnings per share figuring's

1. OVERVIEW

Accounting is called the language of the business by which business can speak with the partner of the business. Every single organization ought to set up the financial statements to speak with them by their nations Generally Acceptable Accounting Principles (GAAP). To make consistency in the all world new arrangement of displaying financial proclamation or the new language of accounting for the world is International Financial Reporting Standard (IFRS). The International Financial Reporting Standards (IFRS) plans to make international financial reporting correlations as ahead of schedule as conceivable because every nation has its very own arrangement of accounting rules.

For instance, US GAAP is not the same as Indian GAAP, and both are far separated from India GAAP. Synchronizing accounting standards over the globe is a continuous procedure in the international network.

The expanding pace of globalization over late years has constrained the pace for the reception of genuinely practically identical and predictable international accounting standards. Ten years back, national adaptations of GAAP were ordinary. These days, IFRS has increased wide acknowledgment and is utilized in more than 100 nations. The United States is moving towards the convergence of US GAAP and IFRS, with the present time table

demonstrating that the arrangement of standards will be connected to extensive public companies in 2014. However, some ought to have the alternative to making a move considerably prior.

Since mid-2008, IFRS has been permitted in the United States without compromise for foreign private backers. The Securities and Exchange Commission's (SEC) guide recommends that the choice over the future might be liable to delays. By and by, the far-reaching utilization of US GAAP instead of IFRS can make troubles for financial examiners, given the difficulties in making financial examinations. Be that as it may, the opportuneness for change is a long way from clear. A joint activity by the Financial Accounting Standards Board (FASB) and the International Accounting Standard Board (IASB) intends to merge existing standards into a solitary arrangement of standards. Interestingly, IFRS has been a prerequisite in Europe for recorded companies since 2006. In light of the inexorably international pattern of IFRS, some rising economies have rushed to embrace IFRS as their national adaptation of GAAP. In this manner, in the present time of innovation, the usage is vital for the legitimate just as from the enthusiasm of the partner's perspective.

Problems, particularly for this research incorporates lack of experts like bookkeepers, examiners, statisticians, valuation experts and other related experts.

Company officers, back supervisors and most paper writers with single word acknowledge IFRS as a worldwide accounting standard. They pronounce that, this standard makes the work straightforward and effectively justifiable, it is persuading for each partner, simple to get ready combined financial articulation, viable and cost efficient [1]. Unexpectedly, the vast majority of them concurred on the event of a deficiency of experts here. Whatever they composed and said how much the lack is a rescuer, the circumstance isn't fulfilling yet. IFRS mentors who can give in-benefit preparing for company GAAP experts. In some, deficiency of IFRS experts is still there and might proceed for what's to come. It turns into a major issue now that company chiefs need to talk and battle to make an end for it consequently, the time has come to ask and examine on the issue, because the problem is significant and must be settled. Noting this problem is useful for organizations in three different ways, these are, first, it is simple for them to unite to IFRS, in any event, they delete this current day's enormous hindrance to going to the new standard [2].

The pattern toward Indian organizations procuring more benefits abroad isn't new. A large number of these worldwide organizations are acquiring over half of the revenue from remote deals mirroring the developing globalization of US business. Instances of American organizations that

have gotten half or more in revenues from outside deals incorporate Honeywell International, Coca Cola, Pepsi Cola, and IBM. Almost 500 remote organizations are recorded on the New York Stock Exchange while the London Exchange records more than 400 outside organizations (Spiceland, 2007) [3].

The developing enthusiasm for remote financing movement made interest in accounting standards that addressed the issues of speculators and organizations working in worldwide value markets. In 2000 Gunther Gebhardt of the Brookings Institution composed that showcase request and market powers will accomplish comprehensively accepted accounting standards (Gebhardt, 2000) [4].

• **Impact on Multinational Corporations**

Despite the many problems in converging accounting standards, the movement of US Multinational companies to overseas operations is indicated in the following graphs. Data from the Commerce Department reveals that in 2006 the change in corporate profits fell dramatically for domestic operations in the United States and foreign sales revenue received by US Multinational companies exceeded the domestic revenues as indicated in Figure 1.2, Change in Corporate Profit Receipts from Overseas and Domestic Operations from 2015-2017.

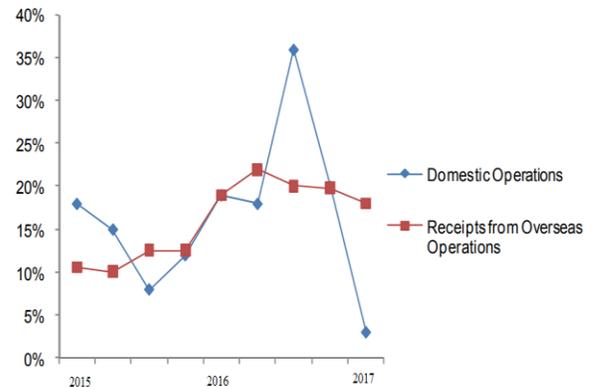


Figure 1.2: Change in Corporate Profits Receipts from Overseas and Domestic Operations from 2015-2017

Different organizations crossing the half limit in international deals are Pepsi Cola, Coca Cola, Honeywell International, and IBM. In different zones of business operations, most synthetic organizations have been building plants and operating workplaces abroad for a considerable length of time where operating expenses were lower. The minimal effort operations have turned out to be significant markets. By the second from last quarter of 2007 international offers of Du Pont worldwide deals have hopped to sixty-four percent 64% and Dow Chemical's international revenue was around sixty-five percent 65% of all-out revenue (Campoy, 2008) [5]. Regardless of these happenings, it gives the idea that development around the globe is abating. Under IFRS revenue is generally perceived when a deal happens.

As per Bnet Business Network organizations in Europe and Asia have discovered that

changing over to IFRS have discovered that it diminishes the expense of capital, enhances access to capital, decreases the cost of raising capital, builds investor certainty, and considers straightforwardness and correlation among organizations (Bnet, 2004) [6].

- **Accounting Standards for Employee Stock Option Disclosure**

By requiring the reasonable value of Employee Stock Option grants (ESOs) to be expensed in the income proclamation, the December 2004 execution of modified Financial Accounting Standard 123 (FAS 123R) has essentially changed the accounting for stock-based pay with unexpected highlights. "Despite the fact that displayed as an update to existing accounting standards, SFAS 123(R) is a broad rework of existing standards". While FAS 123 required public elements that utilized the characteristic value technique for APB 25 to unveil master form proportions of overall gain and earnings per share as though the reasonable value strategy was utilized, the area of such exposures in the notes to the financial statements joined with the occasionally confounding or darken introduction of such revelations was esteemed to be adequate to warrant a substantive changing of the standard.

- **Simplification of Aspects of Stock-Based Compensation Accounting**

The FASB issued two accounting standards updates in 2016 and 2017, amending the accounting for stock compensation / share-based payments. The FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): *Improvements to Employee Share-Based Payment Accounting* in March 2016. Intended to simplify aspects of the accounting for and reporting of stock-based compensation as follows:

- The tax effects of share-based payments will now be recognized in the income statement;
- Windfall benefits/shortfalls will be reported as deferred tax assets/liabilities when they arise;
- All tax-related cash flows from share-based payments will be reported as operating activities in the statement of cash flows;
- The classification of awards as liabilities or equity due to tax withholdings may change; and
- Accounting for forfeitures may change.

2. IASB ISSUES A NEW ACCOUNTING STANDARD IFRS 16, LEASES

The International Accounting Standards Board (IASB) has embraced a task to survey the more than multi-decade old standard on leases and got broad criticism on their proposition. Since March 2014, they have re-thought on practically all aspects of the venture. IASB, on 13 January 2016, issued another accounting standard, IFRS 16

Leases. At the most straightforward dimension, the accounting treatment of leases by residents would change in a general sense. Out of the blue, investigators can foresee to see an organization's evaluation of its lease liabilities, which is determined to utilize an endorsed technique that all companies reporting under IFRS will be required to pursue. The new standard is powerful from 1 January 2019, early application is allowed (as long as the as of late issued income standard, IFRS 15, Revenue from Contracts with Customers is likewise connected). Going with the Standard, IASB has likewise distributed a different Effects Analysis, which outlines the expenses and advantages of the Standard. It exhibits the requirement for the Standard and outlines IASB's examination that the advantages of applying the new standard outweigh the expenses related with its execution.

3. ACCOUNTING AND TAX TREATMENT OF EMPLOYEE STOCK OPTION PLAN

As an organizer, you would dependably need to employ the best of assets for your startup, however the problem is that the best has cost appended to it, which a startup will be unable to bear the cost of at first. In this manner, Employee Stock Option Plan (ESOPs) gives an answer for the originators, by which they can hope to ingrain author's inspiration among their establishing group by offering stake in the business by method

for ESOPs. From long haul viewpoint, Employee Stock Option Plan is considered as a decent administration device for maintenance of human ability. Under this plan, employees are given stake in the organization as offers/options at scaled down cost than what wins in the market. The staff can practice the options simply after the vesting time frame passes. In this article, we have concentrated on the accounting and taxation treatment of ESOPS.

4. STOCK BASED COMPENSATION

Stock Based Compensation (also called Share Based Compensation or Equity Compensation) is a way of paying employees, executives, and directors or a company with ownership in the business. It is typically used to motivate employees beyond their regular cash-based compensation (salary and bonus) and to align their interests with the company. Shares issued to employees are usually subject to a vesting period before they can be sold.

• Types of Equity Compensation

Compensation that's based on the equity of a business can take several forms.

Common types of compensation include:

- Shares
- Restricted Share Units (RSUs)
- Stock Options
- Phantom Shares
- Employee Share Ownership Plan (ESOP)

• Advantages of Stock Based Compensation

There are many advantages to this type of remuneration, including:

- Creates an incentive for employees to stay at the company for longer (they have to wait for shares to vest)
- Aligns the interests of employees and shareholders
- Doesn't require cash

Disadvantages of Share Based Compensation

Challenges and issues with equity remuneration include:

- Dilutes the ownership of existing shareholders (by increasing the number of shares outstanding)
- May not be useful for recruiting or retaining employees if the share price is going down

5. ACCOUNTING FOR STOCK-BASED COMPENSATION NEEDS REFORMED

Stock-based pay is a magnificent method to remunerate employees for their diligent work; meeting organization objectives and helping an organization accomplish financial thriving. Be that as it may, this technique for paying employees may exhibit problems for accountants endeavoring to determine the soundness of an organization's primary concern. Teachers Paul B.W. Mill operator and Paul R. Bahnson have spread out a case for accounting change concerning how this remuneration functions. The Financial Accounting Standards Board, or FASB,

inspected stock-based pay governs as they identified with financial reporting in 1995.

6. PROBLEMS AND CHALLENGES

International Financial Accounting Standards (IFRS), in the past known as International Accounting Standards (IAS), are the Standards, Interpretations, and Framework for the Preparation and Presentation of Financial statements received by the International Accounting Standards Board (IASB). IAS was issued in 1973 and 2001 by the board of the Internal Accounting Standards Committee (IASC).

Impacts to companies:

- Plan design will impact and may be structured to achieve a better alignment between management objectives and financial reporting.
- The accounting for employee stock-based compensation, but also will impact related valuation requirements, deferred income tax accounting, the calculation of earnings per share, the cash flow statement presentation, and other disclosures.
- The accounting complexities associated with measuring stock-based compensation and defined benefit plans, may impact a company's use of other additional resources including valuation specialists and actuaries.

7. CONCLUSION

India will actualize IFRS with in brief period with the full devotion. The Indian Ministry of Corporate Affairs (MCA) has

released a guide for the appropriation of Indian Accounting Standards (Ind AS), which are to a great extent joined with International Financial Reporting Standards (IFRSs), by Indian managing an account, protection and non-keeping money fund companies.

The correct frameworks and procedures would be essential to quantify lease resources and liabilities as per IFRS 16. FASB is relied upon to distribute its new lease accounting standard without further ado. While this would be merged with IFRS 16 on a few aspects, there could probably be huge contrasts in the tenant accounting model, estimation and transition prerequisites.

I assume, this research has a lot to tackle companies' ongoing expertise problem that hampers them to execute IFRS. It contributes it part in the battle to defeat the deficiency. There is dependably a change; our globe has been passing constant changes, as needs are companies have been reacting as much as they can. The turn during the current day's change is the accounting standard that most companies of the world are tolerating or practicing and attempting to blend them with the change. Each change has its qualities and shortcomings and may make openings and problems.

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