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ROLE OF ETHICS AND GOVERNANCE IN THE ACCOUNTING PRACTICES IN PRESENT INDIAN BUSINESSES WITH SPECIAL REFERENCE TO SATYAM SCANDAL 2009

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ABSTRACT

Accounting in business is basically the art of managing the inflow and outflow of money so that a business can easily work and grow without any disturbance and interruption. A businessman in general starts its accounting process with identifying and analyzing business transactions and events. Generally all those transactions which involve the movement of money are recorded and in which the businessman is included in the process. It is very important in this context that a businessman should present the fair, transparent and actual financial position of the business. At this point the role of ethical and governing bodies is very crucial to make proper guidelines and accounting standards and to ensure their true implementation in the present Indian Businesses. The government of India banned the old 500 and 1000 Rs. Notes just to reduce and eliminate the generation of black money in the economy as well as illegal outflow of money outside India. The responsibility of accountants in present businesses is just like the builder as they will affect the decision making of the owners on the basis of financial statements which they will produce in front of owners. The Basic objective of this paper is to show some light on the present accounting practices in Indian businesses and role of ethics and governance in controlling the unethical practices in accounting.

KEYWORDS: Ethics, Governance

Accounting or accountancy is the measurement, processing and communication of financial information about economic entities such as businesses and corporations. The modern field was established by the Italian mathematician Luca Pacioli in 1494. Accounting, which has been called the "language of business", measures the results of an organization's economic activities and conveys this information to a variety of users, including investors, creditors, management, and regulators.

ACCOUNTING CYCLE STEPS

Identifying and Analyzing Business Transactions

The accounting process starts with identifying and analyzing business transactions and events. Not all transactions and events are entered into the accounting system. Only those that pertain to the business entity are included in the process. For example, a personal loan made by the owner that does not have anything to do with the business entity is not accounted for. The transactions identified are then analyzed to determine the accounts affected and the amounts to be recorded. The first step includes the preparation of business documents, or source documents. A business document serves as basis for recording a transaction.

Recording in the Journals

A journal is a book – paper or electronic – in which transactions are recorded. Business transactions are recorded using the double-entry bookkeeping system. They are recorded in journal entries containing at least two accounts (one debited and one credited). To simplify the recording process, special journals are often used for transactions that recur frequently such as sales, purchases, cash receipts, and cash disbursements. A general journal is used to record those that cannot be entered in the special books. Transactions are recorded in chronological order and as they occur. Journals are also known as Books of Original Entry.

Posting to the Ledger

Also known as Books of Final Entry, the ledger is a collection of accounts that shows the changes made to each account as a result of past transactions, and their current balances. After the posting all transactions to the ledger, the balances of each account can now be determined. For example, all journal entry debits and credits made to Cash would be transferred into the Cash account in the ledger. We will be able to calculate the increases and decreases in cash; thus, the ending balance of Cash can be determined.

Unadjusted Trial Balance

A trial balance is prepared to test the equality of the debits and credits. All account balances are extracted from the ledger are arranged in one report. Afterwards, all debit balances are added. All credit balances are also added. Total debits should be equal to total credits. When errors are discovered, correcting entries are made to rectify them or reverse their effect. Take note however

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that the purpose of a trial balance is only test the equality of total debits and total credits and not to determine the correctness of accounting records. Some errors could exist even if debits are equal to credits, such as double posting or failure to record a transaction.

Adjusting Entries

Adjusting entries are prepared as an application of the accrual basis of accounting. At the end of the accounting period, some expenses may have been incurred but not yet recorded in the journals. Some income may have been earned but not entered in the books. Adjusting entries are prepared to update the accounts before they are summarized in the financial statements. Adjusting entries are made for accrual of income, accrual of expenses, deferrals (income method or liability method), prepayments (asset method or expense method), depreciation, and allowances.

Adjusted Trial Balance

An adjusted trial balance may be prepared after adjusting entries are made and before the financial statements are prepared. This is to test if the debits are equal to credits after adjusting entries are made.

Financial Statements

When the accounts are already up-to-date and equality between the debits and credits has been tested, the financial statements can now be prepared. The financial statements are the end-products of an accounting system. A complete set of financial statements is made up of: (1) Statement of Comprehensive Income (Income Statement and Other Comprehensive Income), (2) Statement of Changes in Equity, (3) Statement of Financial Position or Balance Sheet, (4) Statement of Cash Flows, and (5) Notes to Financial Statements.

Closing Entries

Temporary or nominal accounts, i.e. income statement accounts, are closed to prepare the system for the next accounting period. Temporary accounts include income, expense, and withdrawal accounts. These items are measured periodically. The accounts are closed to a summary account (usually, Income Summary) and then closed further to the appropriate capital account. Take note that closing entries are made only for temporary accounts. Real or permanent accounts, i.e. balance sheet accounts, are not closed.

Post-Closing Trial Balance

In the accounting cycle, the last step is to prepare a post-closing trial balance. It is prepared to test the equality of debits and credits after closing entries are made. Since temporary accounts are already closed at this point, the post-closing trial balance contains real accounts only.

Reversing Entries: Optional step at the beginning of the new accounting period

Reversing entries are optional. They are prepared at the beginning of the new accounting period to facilitate a smoother and more consistent recording process.

In this step, the adjusting entries made for accrual of income, accrual of expenses, deferrals under the income method, and prepayments under the expense method are simply reversed.

Author's Notes: So there you have the nine steps in the accounting cycle. This is just an overview of the accounting process. Each step will be illustrated one by one in later chapters.

Ethical Accounting and Role of Governance in Accounting

Accounting ethics refers to the standards of right and wrong conduct that apply to the accounting profession. Various accounting organizations maintain professional codes of conduct to assist accountants with upholding ethical behavior. The role of accountants in the present business scenario is very crucial in the sense that the information which they make available by financial records of the business work as a basis for decision making of owners, investors and other concerned parties associated with that business. In recent years, the Indian economy has undergone a number of reforms, resulting in a more market-oriented economy. Particularly, after the Government of India has taken steps towards liberalization and globalization of the economy, the size of Indian Corporates is becoming much bigger and accordingly the expectations of various stakeholders are also increasing, which can be satisfied only by the good Corporate Governance.

The importance of good Corporate Governance has also been increasingly recognized for improving the firm's competitiveness, better corporate performance and better relationship with all stakeholders because of whom the Indian Corporates have obliged to reform their principles of Governance. For that purpose, Indian companies will now be required to make more and more elaborate disclosures than have been making hitherto, for which they are also required to adhere to the uniform and proper accounting standards, as the standards reduce discretion, discrepancy and improves the utility of the disclosure.

In India accounting standards are inadequate, as a result the disclosure is ineffective, which is a negative phenomenon to a country which wishes to be a global player as it cannot hope to tap the GDR market with inadequate financial disclosures, since the more transparent activities of a company governed by the proper accounting standards, the more accurately will its securities be valued. In this context, an attempt is made here to examine the accounting standards and their practices in India, with a view to strengthen the accounting standards and improve their practices for good Corporate Governance.

TYPES OF ACCOUNTING

Financial Accounting

Financial accounting is a specialized branch of accounting that keeps track of a company's financial transactions. Using standardized guidelines, the transactions are recorded, summarized, and presented in a financial report or financial statement such as an income statement or a balance sheet.

Cost Accounting

Cost accounting is a process of collecting, recording, classifying, analyzing, summarizing, allocating and evaluating various alternative courses of action & control of **costs**. Its goal is to advise the management on the most appropriate course of action based on the **cost** efficiency and capability.

Corporate Accounting

Corporate accounting refers to the measurement, recording and interpretation of financial information and data relating to a limited company (a public limited company or a joint stock company). It specifically refers to accounting for larger organizations rather than smaller-scale sole traders or partnerships where the requirements and demands for filing accounts tend to be less rigorous. This is because corporations have a duty to provide financial information to the general public and regulatory bodies, whereas smaller businesses do not have this duty.

Management Accounting

Management accounting involves preparing and providing timely financial and statistical information to business managers so that they can make day-to-day and short-term managerial decisions. Management accounting differs from financial accounting in that it produces reports for a company's internal stakeholders as opposed to external stakeholders. The result of management accounting is periodic reports for the company's department managers and CEO, for example. Management accounting reports often include details of the company's available cash, recent generation of sales revenues, the current state of the organization's accounts payable and receivable, and more.

RESEARCH OBJECTIVES

1. To study the factors affecting accounting process in Indian business.
2. To identify factors that can be manipulated to make false financial statements.
3. To suggest remedial procedures and methodologies for ethical accounting of businesses.

Research Design: - Exploratory – Case Study Method

Research Question

How the manipulation is performed in the accounting records of the Satyam Computer Services?

Satyam Case

On 7th January 2009 the Chairman of Satyam Ramalinga Raju resigned, and confessed that he had manipulated the accounts by US$1.47-Billion. It was the biggest scandal ever in the history of Indian Financial System in terms of Manipulation of financial statements of any company. The Chairman Raju along with the Multinational Company Price Water house Coopers planned and executed the biggest scam by simply misstating the figures in the Balance Sheet. Ironically, Satyam means "truth" in Sanskrit, but Raju's admission of guilt has given the company, the name "Asatyam"!

POTENTIAL REASONS OF FRAUD

1. Highly ambitious rapacious Company Head towards land acquisition.
2. Creating fictitious revenue and profits to show a healthy image of the company in front of the stakeholders.
3. Very high dependency and faith of Board of Directors on Company's Head management of decisions
4. Purchase of Land by using the names of family members of Company's Head.
5. Purchase of land by the names of various companies around 325 self owned companies by his immediate relatives.
6. Major portion was bought as agriculture land, so the rental income was not taxable.

7. Due to recession in the year 2008 the company's wealth and market value was decreasing. So to safeguard the company Ramalinga Raju falsely increased the turnover so that the companies wanting to acquire the company wouldn't as it would be a costly affair for the company making the bid for acquisition. Also, he transferred the funds from Satyam by cooking the books to purchase lands, so now there was a big hole in the balance sheet. But what if he merged his real estate and construction company with Satyam? He could then have possibly concealed the fraud. He gave himself up when he had to abort the merger of Satyam with Mytas Infra since the shareholders weren't consenting and the rumours had spread a lot.
8. Here two things are done. One, fictitious Debtors i.e. money receivable from clients is created and fictitious payroll (a.k.a ghost employees) showing payment of salary to them. He introduced 7000 fake invoices into the company's computer system to record sales that simply did not exist.

MAJOR FINDINGS OF THE CASE

1. The Ramalinga Raju was Harvard Graduate, had a very impressing disposition, a pleasing temperament and a respectable character in his circle and everybody had the utmost faith in him.
2. The company head, Ramalinga Raju and members of his family secured illegal gains to the tune of about Rs.2, 743 crore by various tricks.
3. The fraud was perpetrated by inflating the revenue of the company through false sales invoices and showing corresponding gains by forging the bank statements with the connivance of the Statutory and Internal Auditors of the company.
4. The annual financial statements of the company with inflated revenue were published for several years and this lead to higher price of the scrip in the market. In the process, innocent investors were lured to invest in the company.
5. Attempts were made to conceal the fraud by acquiring the companies of kith and kin.
6. The CBI constituted a Multi-Disciplinary Investigation Team (MDIT) to investigate the case. In a record time of 45 days CBI filed its first chargesheet against the accused for offences of criminal conspiracy, cheating, forgery and falsification of accounts.
7. Price water house Coopers affiliates served as independent auditors of Satyam Computer Services when the report of scandal in the account books of Satyam Computer Services broke. The Indian arm of PwC was fined $6 million by the SEC (US Securities and Exchange Commission) for not following the code of conduct and auditing standards in the performance of its duties related to the auditing of the accounts of Satyam Computer Services.
8. On 10 January 2009, the Company Law Board decided to bar the current board of Satyam from functioning and appoint 10 nominal directors. "The current board has failed to do what they are supposed to do. The credibility of the IT industry should not be allowed to suffer." said Corporate Affairs Minister Prem Chand Gupta. Chartered accountants regulator ICAI issued show-cause notice to Satyam's auditor Price water house Coopers (PwC) on the accounts fudging.
9. Also on 10 January 2009, the same day, the Crime Investigation Department (CID) team picked up Vadlamani Srinivas, Satyam's then-CFO, for questioning. He was arrested later and kept in judicial custody.
10. On 13 April 2009, via a formal public auction process, a 46% stake in Satyam was purchased by Mahindra & Mahindra owned company Tech Mahindra, as part of its diversification strategy. Effective July 2009, Satyam rebranded its services under the new Mahindra management as "Mahindra Satyam". After a delay due to tax issues Tech Mahindra announced its merger with Mahindra Satyam on 21 March 2012, after the board of two companies gave the approval. The companies are merged legally on 25 June 2013.

SUGGESTIONS AND RECOMMENDATIONS

1. As in the case we can see that the company head Ramalinga Raju was having the complete authority in his hands. So it should not be given the complete authority in the hands of one person.
2. The accounting records were falsely presented continuously four several years. So there should be a surprise check at regular intervals in the finance and accounting section of every organization so that the officials will not be able to do any fraud.
3. At the higher and administrative level the authorities should not be allowed to introduce or enter any of their family members in the company and in the financial affairs.

4. The corporate governance bodies should be very alert and take review on regular intervals about the functions and activities of the accounting and financial departments of companies.
5. The quarterly reports of the companies should also be verified and audited so that no company will able to give false presentations in their records.
6. The Securities Exchange Board of India should make strict rules regarding the use and application of investor's money so that every company will give true information about the utilizations of investor's funds.
7. The licensing to the Auditors and Auditing agencies should be well regulated and properly managed to eliminate false verification of accounting records of companies.
8. The accounting ethics is not the destination; it is a never ending journey. Hence the accounting officials should be motivated continuously towards the fair accounting practices in businesses.

CONCLUSION

It is very important to mention that in Indian Stock Market the investors are more interested to invest their money with very less or sometimes no awareness about the market and company. The Corporate Governance and ethical bodies responsible for the fair and transparent records of the company should perform very strictly with the officials of accounts and financial statements. The Step of Government of India of Demonetization is the great milestone in terms of avoiding frauds, tax evasion and reducing the risk of cash handling. As much as the transactions will become cashless the transparency in the accounting records will increase and ultimately will lead to the safety of investor's money and their faith on the companies.

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