The Impact of IFRS on Financial Statements:
A Study of Indian Listed Companies

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Abstract

International Financial Reporting standard has become the new dominant set of accounting standards; however the transition to the new standards is fairly descriptive for users of financial statements. This paper highlights the benefit and challenges of IFRS adoption and identifying the major difference between Indian GAAP and IFRS. This study also examines the impact of IFRS adoption in India on financial statements figures and key financial ratios. For this purpose six Indian listed companies have been selected which have adopted IFRS voluntarily till 2014. For testing the hypotheses student's paired t test has been used. The finding of this study revealed that adoption of IFRS has led to a no significant impact on assets turnover ratio, fixed assets turnover ratio, return on assets, net profit margin, receivable turnover and return on equity.

Key words: IFRS adoption, Indian GAAP, Financial statements and financial ratios.

Introduction

In globalise scenario, the significance of convergence with International Financial Reporting Standards (IFRS) raise. India cannot afford to insulate itself from the developments and modifications taking place worldwide. For the account, accounting period on and after, Indian listed companies are required to prepare consolidated accounts on the basis of IFRS. This decision was taken in an attempt to increase comparability of accounting information throughout the world following the limited success of harmonization process by means of company law approximately.

Listed companies in India would have to switch to IFRS at the same time. This development has been described as the most significant event in the history of financial reporting. Additionally this decision lead to countries outside India also implementing IFRS (at the same time or soon after) based on the rationale that IFRS would be of higher quality than the corresponding national standards. Thus comparability of financial information would be enhanced resulting in the attraction of foreign investors.

Following are the concerns expressed and the research opportunities suggested by this significant event. First it looks at the immediate effects of mandatory IFRS adoption on financial statement because of significant pre-IFRS accounting differences using the reconciliation

statement provided in the first IFRS financial statement as required by IFRS. Second it examined the companies' compliance with IFRS mandatory disclosure and the factors associated with these levels during the first year of IFRS implementation. This, it examines effect of the switch to IFRS in the value relevance of accounting figures in several fonts. The study intentionally focuses on the first year of mandatory IFRS adoption as it not only explores these issues independently but also explores the links between these dimensions.

Review Of Literature

Capkun et al. (2008) discussed with mixed finding. One part of the present study adds to this literature by implementing the Owson Model and examine the pre and post IFRS period relative value relevance in Greece.

Cardazzo (2008) provided a more in-depth study by analysing 178 companies listed on MSE. This study provided comparable finding to those reported here because of large sample used and because Gray's comparability index has been employed.

Lopez and Viana (2008) analyse the total population of listed companies (44) on the Portuguese stock exchange that had to provide reconciliation statement for the transition to IFRS. They provide narrative discussion of transition related disclosures provided by the Portuguese companies but focus less on the quantitative aspect of the subject matter. They report the more companies were affected positively with regard to shareholder equity and net profit than negatively.

Callao et al. (2007) use a sample of 26 listed companies in Spain and examine the impact of reported in the reconciliation statement of those companies as well as the change in their book to market ratio. They find inter alia that long term and total liabilities increased whilst debtor and shareholder equity decreased.

Ball (2006) discussed above IFRS consider investors as the main users of financial statement. They are not debt and tax oriented as traditionally are the accounting regulation in Code Law or Continental European countries supposedly IFRS reflect economic gains and losses in a more timely position and provide more value relevant in a country which switch to a situation top a shareholder oriented system such as IFRS.

Scott (2006) explain how security prices respond to the release of accounting information which can be used to measure the value relevance of accounting no of investors. He nots that the value relevance of reported net income can be measured by the extent of security price change around the time the market learns of the current net income.

Chang (2006) investigates changes in the value relevance of earning and book value as well as the factor associated with those change for U.S. firm 1953 to 1996 using the residual income valuation approach he develop three measures of value relevance variation measures, portfolio return measures and valuation lag measures result for variation measures indicate that the value relevance of book value and earning decline over time.

Ding et al. (2005) divergence is closely related with culture and as argued above Greece has a distinctive culture. He also identify a positive association between ownership. Concentration is a particular feature of Greek market also finds a negative association between divergence and the importance of the equity market.

Francis (2004) identify seven desirable attributes of accounting quality, accrual quality, persistence value relevance, timeliness predictability, smoothness and conservatism. This suggest that value relevance, even if not the only attributes of accounting quality.

Al Shaib (2003) discussed an alternative method that avoid this problem in the practical compliance unweighted approach. According to this approach the degree of compliances for each company is measured by adding the degree of compliance for each standard and then dividing this sum by the number of standards applicable in each company.

Beaver (2002) notes that value relevance had been a major area of interest in empirical accounting research throughout the previous 10 years and also states that as with other research areas value relevance in controversial.

Holthhauser and Watts (2001) assess value relevance literature …. for standard setting. The authors argue that it is difficult to draw standard setting in…. from existing literature and claim that much of the value relevance research is motivated by an assumption that financial statements provide input to investors valuation and that equity investors are the dominant users of financial reporting. They argue that this is inconsistent with the view of accounting standard setting regarding the purpose of accounting which emphasizes all stakeholders.

Dye (2001) provide a presently no received theory on mandatory disclosures in accounting. On that basis and considering all the above arguments and limitations this study drawn upon theories of voluntary disclosures to explore the potential factors that may explain the level of compliance identified.

Stert and Gray (2001) use both methods weighted and unweighted disclosure index. They find different significant associations under each method between the dependent variable (compliance score) and a number of independent variables. This study use both methods and tests the significance of the differences in the compliance scores

identified. Additionally it explore the implications of the application of moth methods with regards to the factor appearing to explain compliance with IFRS mandatory disclosures.

Baith (2001) claims that value relevance research is important for investors but it also provide useful insight into accounting matter for standard setters and other users.

Graham et al. (2000) examine the value relevance of accounting information in Thailand before and after the 1997 devaluation of debt. The author address two primary questions. First, what is the relationship between accounting information and stock prices in Thai companies? Second, what effect did the 1997 economic crisis have on the association between accounting information and stock prices? To analyse the change in value relevance before and after the 1997 crisis the study cover period from 1992 to 1998. The authors find that the earning and book values produced by Thai firm were value relevant but the associated between accounting information and stock prices changed over the study period.

Harris and Mueler (1999) examine the incremental value relevance of an accounting item investigated and two measures may be incrementally value relevant with respect to each other although resulting in no difference in relative value relevance.

Collins et al. (1997) investigates change in the value relevance of earning and book value combined earning and book value for U.S. firm over 41 years period. Their study reveals three primary finding. First the combined value of relevance of earning and book values seems to increase slightly over time rather than decline. Second the value relevance of ….. appears to decline over the study period but at the same time the value relevance of book value increase. Third the shift in value relevance from earning to book values appears to be due to an increase in the incidence and significance of one time items. Change in average firm size and intangible intensity level over the study period and an increased frequency of negative earning.

Burgstahler and Dicher (1997) argue and find evidence showing that market give more weight to book value for firms with low earning level and more weights to earning for firms with high earning levels and analysis book value becomes a more important indicator of market value for firms with low earning or losses.

Amir and Lev (1996) investigate the value relevances of wireless communication companies financial information of wireless communication companies using price and return model. Their study reveals two key findings. First financial variable in this sector are value relevant only when combined with non-financial variables in regression model. This result demonstrates the complementary relationship between financial and non-financial information. Second the value relevance of non-financial information in the wireless communication industry overwhelms the value relevance of traditional financial indicator. Similar results are expected in other science-based, high growth sectors.

Admas (1994) defines compliances as the management of regulatory risk – the risk that a rule or regulation will broken and explain that this risk has many elements (financial risk, litigation risk, risk of regulatory … and reputation risk). Accordingly managers observe and assess these before making decision on compliances. An important factor in this process is also the level of enforcement in each country.

Review of literature disclosed that where a country change accounting language from their local standard to IFRS the financial figure also changed.

Objectives

The objectives of present study are:

1. To find out whether adaption of IFRS significantly impact on Assets Turnover Ratio or not.

2. To find out whether adaption of IFRS significantly impact on Fixed Assets Turnover Ratio or not.

3. To find out whether adaption of IFRS significantly impact on Return on Assets or not.

4. To find out whether adaption of IFRS significantly impact on Net Profit Margin or not.

5. To find out whether adaption of IFRS significantly impact Receivable Turnover or not.

6. To find out whether adaption of IFRS significantly impact on Return on Equity or not.

7. To find out whether IFRS is more conservative compare to Indian GAAP or not through comparability Index for all the activity based ratios.

Hypotheses

The followings hypotheses have been formulated whether there is any difference between IFRS and Indian GAAP for preparing the financial statement.

Ho1 There is no statistically significant difference of Assets turnover ratio calculated on Indian GAAP and IFRS based financial statement

Ho2 There is no significant difference of Fixed assets turnover ratio calculated on Indian GAAP and IFRS based financial statement

Ho3There is no significant difference of Return on assets turnover ratio calculated on Indian GAAP and IFRS based financial statement.

Ho4 There is no statistically significant difference Net profit margin calculated on Indian GAAP and IFRS based financial statement

Ho5 There is no statistically significant difference of Receivable turnover calculated on Indian GAAP and IFRS based financial statement

Ho6 There is no statistically significant difference of Return on equity calculated on Indian GAAP and IFRS based financial statement

Research Methodology

In this section demonstrate the research sample together with method of data collection, measurement of variable and tools and technique of statistical analysis.

1. Selection of Sample: As per the previous discussion that ICAI issued notification and prescribe road map for implementing IFRS in India but still it is not possible to implement IFRS in India compulsorily. Some companies adopt IFRS for their own interest. For the present research following six Indian Companies have been selected, who have adopted IFRS voluntarily till 2014.

I.   WIPRO

II. ROITA India

III. INFOSYS

IV. Great Eastern Energy Corporation

V.   DABUR India Ltd.

VI. Noida Toll Bridge Ltd.

2. Data Collection : Activity based ratio are often used in accounting practice, especially for decision making process. Apart from this these ratio also provide useful information about financial position and performance of the company. In this paper ratio have been calculated based on figure obtained from financial statement that are constituted according to the two set of accounting standard Indian GAAP and IFRS for the same ICAI and ministry of corporate affairs jointly announced for adopting IFRS

3. Study period: For GAAP financial statement 2013-14 and for IFRS financial statement 2014-15.

4. Variable: In this study the selected variables were collected from the company Balance sheet and Income statement six financial ratios have been considered in this analysis.

5. Statistical Techniques: Descriptive statistics are presented for each ratio to describe the features of the collected data. It includes measurement of central tendency, measurement of variability and measurement of dispersion. For testing the hypothesis student paired t test has been used. The decision rule is to reject the null hypothesis if calculated value fall outside the critical value of "t" or if the p value is less than 0.025. Finally for analyzing whether IFRS is more consecrating or not or to find out whether IFRS negatively or positively affect the activity based number.

Result and Finding

Ho1 There is no statistically significant difference of Assets turnover ratio calculated on Indian GAAP and IFRS based financial statement

Table:1
Paired sample t test: Comparative result of GAAP & IFRS Assets turnover ratio

Company Name	GAAP Assets turnover ratio	IFRS Assets turnover ratio	Index
1. WIPRO	0.7851944	1.172137075	0.638621506
2. ROITA India	2.5391	2.43610	1.04229
3. INFOSYS	1.8258	1.07763	1.00458
4. Great Eastern Energy Corporation	0.15914	7.49596	0.0272
5. DABUR India Ltd.	0.2725	0.66960	0.4070
6. Noida Toll Bridge Ltd.	6.16463	5.60128	1.1005
Total	**10.9666**	**18.4527**	

Mean	1.82776	3.0754	0.8216
Median	0.9155	1.8047	
S.D.	2.2907	2.8189	
Skewness	1.793	0.9835	
Kurtosis	3.1375	-0.8703	
Maximum	6.1646	7.0495	
Minimum	0.1591	0.6696	
Paired t test	**P value = 0.3558** **T value = 1.016**		

For assets turnover ratio t test shows the t value -1.016 and p value .35558, since the calculated value is less than the critical value (2.57) and the p value is more than 0.025 so null hypothesis is accepted that IFRS adoption does not affect Assets turnover ratio.

Ho2. There is no significant difference of Fixed assets turnover ratio calculated on Indian GAAP and IFRS based financial statement

Table:2
Paired sample t test: Comparative result of GAAP & IFRS Fixed Assets Turnover Ratio

Company Name	GAAP Fixed Assets turnover ratio	IFRS Fixed Assets turnover ratio	Index
1. WIPRO	0.443	0.436	1.014
2. ROITA India	2.087	1.968	1.060
3. INFOSYS	0.222	0.227	.976
4. Great Eastern Energy Corporation	0.777	7.086	.109
5. DABUR India Ltd.	0.372	0.277	1.339
6. Noida Toll Bridge Ltd.	5.708	5.141	1.109
Total	**9.605**	**15.134**	
Mean	1.600	2.522	1.037
Median	0.6103	1.202	
S.D.	2.120	2.919	
Skewness	1.966	0.966	

Kurtosis	3.827	-0.934	
Maximum	5.702	7.0826	
Minimum	0.221	0.227	
Paired t test	**P value = 0.4329** **T value = -0.853**		

For fixed assets turnover ratio t test shows the t value -.853and p value .4324, since the calculated value is less than the critical value (2.57) and the p value is more than 0.025 so null hypotheses is accepted that IFRS adoption does not affect Fixed Assets Turnover Ratio.

Ho3   There is no significant difference of Return on assets turnover ratio calculated on Indian GAAP and IFRS based financial statement.

Table:3
Paired sample t test: Comparative result of GAAP & IFRS Return on Assets

Company Name	GAAP Return on Assets ratio	IFRS Return on Assets ratio	Index
1. WIPRO	0.014	0.187	0.757
2. ROITA India	0.603	-0.012	-4.784
3. INFOSYS	0.309	0.319	0.968
4. Great Eastern Energy Corporation	1.361	-0.015	-88.089
5. DABUR India Ltd.	3.611	0.215	16.390
6. Noida Toll Bridge Ltd.	0.089	0.100	0.884
Total	**5.446**	**0.795**	
Mean	0.907	0.132	0.4802
Median	0.199	0.144	
S.D.	1.418	0.133	
Skewness	1.867	0.119	
Kurtosis	3.294	-1.368	
Maximum	3.611	0.319	
Minimum	0.0192	-0.0154	
Paired t test	**P value = 0.2342** **T value = -1.352**		

For return on assets t test shows the t value 1.352 and p value -0.2342, since the calculated value is less than the critical value (2.57) and the p value is more than 0.025 so null hypotheses is accepted that IFRS adoption does not affect Return on Assets.

Ho4 There is no statistically significant difference Net profit margin calculated on Indian GAAP and IFRS based financial statement.

Table:4
Paired sample t test: Comparative result of GAAP & IFRS Net Profit Margin

Company Name	GAAP Net profit margin	IFRS Net profit margin	Index
1. WIPRO	0.010	0.187	0.0567
2. ROITA India	0.153	-0.012	4.986
3. INFOSYS	0.335	0.319	0.973
4. Great Eastern Energy Corporation	0.216	-0.015	-1.8702
5. DABUR India Ltd.	0.984	0.215	6.813
6. Noida Toll Bridge Ltd.	0.549	0.100	0.973
Total	**2.249**	**1.093**	
Mean	0.374	0.182	
Median	0.276	0.165	0.515
S.D.	1.349	0.248	
Skewness	1.184	0.464	
Kurtosis	1.247	-0.359	
Maximum	0.984	0.563	
Minimum	0.0106	-0.115	
Paired t test	**P value = -0.250** T value = 1.299		

For net profit margin t test shows the t and p value these p value and p value -0.2342, and t value 1.352 since the calculated value is less than the critical value (2.57) and the p value is more than 0.025 so null hypotheses is accepted this leads to the conclusion that IFRS adoption does not affect Net profit margins.

Ho5 There is no statistically significant difference of Receivable turnover calculated on Indian GAAP and IFRS based financial statement.

Table:5
Paired sample t test: Comparative result of GAAP & IFRS Receivable turnover ratio

Company Name	GAAP Receivable turnover ratio	IFRS Receivable turnover ratio	Index
1. WIPRO	4.626	1.413	3.273
2. ROITA India	3.096	3.036	1.019
3. INFOSYS	6.121	6.050	0.011
4. Great Eastern Energy Corporation	2.976	13.444	0.221
5. DABUR India Ltd.	11.653	28.271	0.412
6. Noida Toll Bridge Ltd.	99.647	100.208	0.994
Total	**128.121**	**152.424**	
Mean	21.353	25.404	
S.D.	5.374	9.747	0.9813
Skewness	2.412	2.112	
Kurtosis	5.852	4.578	
Maximum	99.647	100.208	
Minimum	2.976	1.413	
Paired t test	**P value = 0.255** **T value = -1.285**		

For receivable turnover t test shows the t and p value these p value -0.250, and t value 1.285 since the calculated value is less than the critical value (2.57) and the p value is more than 0.025 so null hypotheses is accepted this leads to the conclusion that   IFRS adoption does not affect Receivable turnover ratio.

Ho6 There is no statistically significant difference of Return on equity calculated on Indian GAAP and IFRS based financial statement

Table:6
Paired sample t test: Comparative result of GAAP & IFRS Return on Equity

Company Name	GAAP Return on equity	IFRS Return on equity	Index
1. WIPRO	0.017	0.290	0.0606
2. ROITA India	0.141	0.315	-4.4886
3. INFOSYS	0.372	0.3664	1.01747
4. Great Eastern Energy Corporation	0.336	0.007	-4535.82
5. DABUR India Ltd.	4.359	0.3939	11.0645
6. Noida Toll Bridge Ltd.	0.122	.1480	0.828
Total	**8.276**	**1.166**	
Mean	1.379	0.194	
Median	0.257	0.215	
S.D.	1.918	0.184	
Skewness	1.091	-0.246	
Kurtosis	-1.0471	-2.243	
Maximum	4.359	0.393	
Minimum	0.017	-0.0315	
Paired t test	**P value 0.1873** **T value = -1.527**		

For return on equity t test shows the t and p value these p value -0.1871, and t value 1. 527 since the calculated value is less than the critical value (2.57) and the p value is more than 0.025 so null hypotheses is accepted this leads to the conclusion that IFRS adoption does not affect return on equity.

Conclusion

These finding led the conclusion that IFRS adoption does not have a significant effect on Activity based ratio of Indian firms. These indicate the most of activity based ratio are negatively affected by transition of IFRS. All the above explanation emphasise the fact that IFRS is a fair value principles based accounting which will improve quality of disclosures and enhance international comparability and understanding of financial statements. This in turn will boost investment from across the globe that will ensure enhanced performance for Indian corporate

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