ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS AND ITS IMPACT ON TRANSITION IN INDIA

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ABSTRACT

International Financial Reporting Standards (IFRS) implementation at the organizational level is examined in this research. As a result of interviews with professionals who have worked on over 170 transition projects, this paper identifies key obstacles to a successful adoption of IFRS. Lack of education and training, inability to get executive level support, inability to recognize and react to the broader business consequences of the change, and inability to capture required information for reporting under IFRS are among the difficulties identified. Due to globalization, foreign nations now have access to local markets that they previously did not. On April 1, 2019, the Indian government pledged to bringing Indian accounting standards into line with IFRS. India's IFRS implementation process is examined in this research. It also addresses India's adoption of IFRS and the benefits of doing so. Issues encountered by regulators, accountants, and firms in India's adoption of IFRS are discussed, as well as the current level of convergence with IFRS.

Keywords: Financial, Adopting, Transition, Implementation, IFRS

INTRODUCTION

Modern financial systems require companies to disclose and report their financial performance using International Financial Reporting Standards (IFRS), since they want the affairs of their companies to be understood consistently and transparently by everyone concerned throughout the globe. The International Financial Reporting Standards (IFRS) have been adopted by more than 120 countries as of today. Government of India's Ministry of Corporate Affairs has published IFRS standards for all relevant institutions, with the exception of banks and insurance firms. It is being led by the Central Bank of India (Reserve Bank of India) as well as the Insurance Regulatory and Development Authority of India (IRDAI).

Similarly, banks were required to migrate to IFRS compliance on April 1, 2013. Due to the requirement for Indian Accounting Standards (ISA) to be aligned with IFRS standards, a phased approach was necessary. However, Indian laws governing corporate affairs must be revised and modified as necessary in order to meet IFRS compliance requirements, and input from Indian businesses must also be sought in order to create an enabling environment for a seamless transition to the new reporting formats [1]. Many nations have recognized that an immediate transition to IFRS is not feasible nor desirable, and that it would take years to achieve convergence.

An economic development-enhancing financial reporting system, well defined quality standards, and a well-established regulatory framework are essential. We have accounting standards in India that have always survived the test of time since they were developed by ICAI, the country's accounting standards-setting organization. Convergence to IFRS becomes more important as we globalize. India cannot afford to isolate itself from the global changes and advancements taking place now. It is possible to understand IFRS in a limited or a wide meaning. According to the IASB, IFRS refers to the new series of announcements with a number. IFRS, in its broadest meaning, comprises standards and interpretations authorized by the IASB, IASC, and SIC, as well as other standards and interpretations. Comparatively, the previous accounting rules were mostly principle-based. India's Accounting Standards (IAS) were introduced in February 2011 as a result of IFRS convergence. Due to practical difficulties encountered by Indian regulators and corporations, the implementation was postponed until April 2012. Contrary to popular belief, convergence of IFRS with local standards is now a reality.

Company managements will benefit from a single reporting platform if all group entities embrace the IFRS standard. Business combinations will be recorded at fair value under IFRS, which will eliminate this issue. Indian corporates will profit greatly from the implementation of IFRS, and accounting professionals will have a number of new possibilities. BPO/KPO development potential will be boosted by IFRS, which is a principles-based standard. All around the globe, accounting professionals are becoming more mobile. The advantages and costs of implementing IFRS in three major areas of accounting, namely corporate accounting, public accounting, and academia, are addressed in detail.

IMPACT OF IFRS ADOPTION

Due to the globalization of trade and business, financial statements are prepared according to the needs of global investors, and companies prepare financial statements according to their own standards, creating confusion for users of financial statements and inefficiency in capital markets (IFRS). However, businesses are finding it more difficult to comply with the new standards. As IFRS enhances the integrity of financial reporting, its adoption has a beneficial effect on worldwide investors. IFRS has had a beneficial effect on the following areas: India's business image and connection with international financial community improve as a result of adopting IFRS.

Due to the use of IFRS, financial statements are prepared uniformly and information is more trustworthy and comparable, which benefits investors who want to invest overseas. IFRS will make it easier for Indian companies to compare their financial statements and performance with those of their international counterparts, leading in more transparent financial reporting outside of India. It improves investor trust, lowers financial reporting load, and simplifies the process of producing individual and group financial statements as a consequence of its adoption. Accounting professionals also profit from IFRS, since they are able to offer their professional knowledge across the globe, boosting their mobility to work in both industry and practices. A company's management may see all of its subsidiaries as a group on a single platform after adopting the International Financial Reporting Standards (IFRS).

RECENT TRENDS OF IFRS IN INDIA

Now that Indian businesses have been subjected to international reporting requirements since 2013, the ministry of corporate affairs has turned its attention to the implementation of these standards on April 1, 2019. From April 1, 2015, businesses having a net value of more than Rs 1,000 crore would be subject to IFRS, according to the draft proposal. Starting in the financial year starting April 1, 2016, both public and unlisted businesses having a net value of above Rs 500 crore but less than Rs 1,000 crore will be required to adopt international accounting standards. The government has placed IFRS on hold due to concerns expressed by corporations and unsolved taxation problems. Organisations representing the sector had requested a delay, saying that they needed more time to prepare. Financial asset valuation and mark-to-market forecasts are among the topics covered by IFRS-converged accounting rules. Initially, businesses' finances are anticipated to be shaken as a result of the standards' need to estimate assets' actual worth. Experts have predicted that a variety of industries, including banking and real estate, will be affected. the source added. "ICAI has been asked to produce a sector-by-sector study, expanding on the effects of implementation." International standards are now followed by all Indian businesses that have an overseas listing or do business abroad. The IFRS, however, would not apply to financial firms. As of April 1, 2019, smaller businesses will be required to produce their financial statements in accordance with international standards. Companies in the oil and gas industry as well as banking, communications, and infrastructure are likely to be affected. 100 nations have ratified the Worldwide Financial Reporting Standards (IFRS), whereas India has converged its financial reporting norms with the international standards. Three of the world's largest economies - Japan, India, and the United States - have yet to embrace IFRS, while Canada, Brazil, and Russia did so last year.

LITERATURE REVIEW

Dhankar, Raj S. (2014) Globalization has changed the way business is conducted throughout the globe. Multinational businesses are expanding their operations and establishing themselves in different developing economies. A growing number of emerging-markets businesses list their securities on foreign stock exchanges in order to raise money. Capital markets become worldwide as a consequence of this. Diverse accounting systems in various nations cause uncertainty among financial statement consumers, resulting in inefficiencies on global capital markets. To keep up with the complexity of corporate transactions, and the globalization of the capital markets, regulators and multinational businesses as well as auditing firms and investors have begun to recognize the necessity for uniform standards in all aspects of financial reporting. Numerous nations have converged their national accounting standards with IFRS because of the need for a single, globally-accepted standard. Indian MNCs are also moving worldwide after liberalization and rapid economic development in India. Global financial markets have also provided financing to these businesses. It is thus essential that Indian corporations adopt IFRS in the form of Ind AS in order to present their financial results. IFRS will be adopted by Indian accounting standards starting April 1, 2011. India's IFRS implementation process is examined in this research. It also addresses India's adoption of IFRS and the benefits of doing so. Issues encountered by regulators, accountants, and firms in India's adoption of IFRS are discussed, as well as the current level of convergence with IFRS/Ind AS.

Dr. M. Muni raju (2016) Globalization has led to more than 3600 international firms setting up shop in India. IFRSs, Indian GAAPs, USGAAPs, Japan GAAPs, etc. are used by these Indian commercial companies to prepare their financial accounts. Accounting organizations throughout the globe are trying to standardize accounting rules, valuation norms, and disclosure requirements in order to prevent this kind of difficulty. Accordingly, India must migrate from Indian GAAP to IFRS in all industries. It was determined that India will also adopt IFRS by creating a new standard called Ind AS. Our goal is to gauge stakeholder knowledge of IFRS adoption in India, as well as to determine the effect of IFRS convergence on different sectors. The study discovered that various industries have different methods of comprehending IFRS, and that there is a strong need for information and training on IFRS.

C. Sankar (2012) Over the years, the usage of IFRS has become one of the most extensively used and recognized standards in the world, with more than 12000 businesses and over 100 countries adopting and requiring its use. In 2011, all listed businesses, banking companies, financial institutions, scheduled commercial banks, insurance companies, and NBFCs will be required to adopt IFRS. The need for convergence of accounting standards has been recognized by many countries, and they are moving forward with its implementation, while others are taking a more passive approach, perhaps because their issues are too complex to resolve, or because they do not understand the importance of IFRS. Timeline of selected nations' convergence, including India. After April 1, 2011, Indian financial statements must comply with IFRS, according to the Indian Institute of Chartered Accountants (ICAI). Existing accounting rules will be revised to be consistent with IFRS. According to the Reserve Bank of India, banks must comply with IFRS for periods starting on or after April 1, 2011.

Manju B (2018) All nations might embrace international accounting as a global system. A globally recognized set of accounting concepts. Two types of international organizations are involved in these developments: those supported by international or political agreements, and those that are voluntary. The United Nations and the European Union are included in the first group. The IASB, IFAC, IOSCO, and the European Financial Reporting Advisory Group fall under the second group. Also included are Confederation of Asia Pacific Accountants, American Accounting Association, The British Accounting Association, The Indian Accounting Association, and others. A review of past research and the advantages of adopting international accounting methods are discussed in this article. IFRS foundation, a respected institution engaged in internationalizing accounting standards, is also described.

RESEARCH METHODOLOGY

Books, committee reports, Indian Financial Survey reports, journals, different announcements, IFRS home websites, standing committee reports and interpretation committee reports were used to gather secondary data for this research.

DATA ANALYSIS

Kolmogorov-Smirnov tests are used in normality analysis to evaluate whether the sample variables are regularly distributed or not. IFRS and Indian GAAP reporting standards have been used to determine the sample ratios, as shown in Table 1. Using the K-S statistic, the observed cumulative frequency distribution of sample variables was compared to a theoretical distribution of the same variables Results of normality analysis indicate that significant Liquidity Ratios, Profitability Ratios, and Leverage ratio values for the study period exceeded a p-value of 0.01. Liquidity ratios of 0.101 (CR) and 0.102 (QR) and leverage ratios of 0.191 (DR), 0.200 (DW), 0.201 (ER) and profitability ratios of 0.200 (ROA), 0.202 (ROE), 0.153 (GPR), and 0.059 ("ATR") were determined to be significant for the sample businesses. Leverage ratios were 0.200, 0.200 (DW) and 0.201 in IGAAP reporting standards (ER). Values of profitability ratios were 0.200 (ROA), 0.191 (ROE), 0.200 (GPR), and 0.202 (ATR) for all companies in the sample.

According to IGAAP and IFRS, the values of all variables were not statistically significant (as the sig. value was greater than 0.05). For the businesses in the sample, NH01 - There is no normalcy in selected financial variables calculated using local GAAP and IFRS - was approved. There is thus no doubt that the sample variables did not follow a standard distribution. Wilcoxon Signed-Rank Test was employed to examine the connection between chosen financial variables before and after the adoption of IFRS since the sample ratio values were not normally distributed.

Table 1: Normality sample for Kolmogorov-Smirnov Test

Financial ratios	IFRS		IGAAP	
	Statistic	Sig.	Statistic	Sig.
Liquidity Ratios				
CR	0.379	0.101	0.178	0.151
QR	0.352	0.102	0.306	0.130
Leverage Ratios				
DR	0.229	0.191	0.244	0.200
DW	0.167	0.200	0.178	0.200
ER	0.163	0.201	0.188	0.201
Profitability Ratios				
ROA	0.223	0.200	0.199	0.200
ROE	0.165	0.202	0.190	0.191

GPR	0.502	0.153	0.190	0.200
ATR	0.352	0.059	0.229	0.202
CR- Current Ratio, QR- Quick Ratio, DW- Debt to Worth Ratio, ER- Equity Ratio, ROA- Return on Assets, ROE- Return on Equity, GPR- Gross Profit Ratio, ATR- Asst Turnover Ratio.				
Source: Completed from Prowess Database and Computed using SPSS				

Non-parametric Wilcoxon Signed-Ranks Test is used to determine if differences between two populations are statistically significant. In both Sandhya Bhatia et al. (2018) and Amrutha Pavithran et al (2018). Tabulated results of Wilcoxon Signed Rank Tests are shown in Table-6. Under IFRS and IGAAP reporting standards, the sample companies' liquidity, profitability, and leverage ratios were examined. There are substantial discrepancies between the liquidity ratios and IFRS, as seen in Table 2. Significance levels (sig value) for current and quick ratios were lower than p-values (0.05). All nine industries, including automotive, energy and infrastructure, as well as metals and packaged foods as well as personal care products and medicines were affected by this trend, which is notable. All of the sample businesses' liquidity measures showed a dramatic improvement after converting to IFRS.

Table-2 shows that the liquidity ratios for all nine sectors were statistically significant (Asymp.Sig 0.05) owing to IFRS convergence. A statistically significant difference was observed in profitability ratios for infrastructure, IT, packaged goods, personal care, pharmaceuticals, and others (Asymp.Sig 0.05). Leverage ratios were statistically significant (Asymp.Sig 0.05) in infrastructure, packaged goods, and personal care. This means that the NH03- 'There is no substantial discrepancy between the local GAAP and IFRS-computed chosen financial variables'- was denied in all five instances. Agca and Aktas (2007) and Callao et al. (2007) found that the implementation of IFRS on financial statements affected current ratios. Convergence to IFRS had a positive impact on profitability, liquidity, investment potential, and growth in this research.

Table 2: Results of Wilcoxon Signed Rank Test of sample NIFTY companies

Sectors	Financial Ratios	Liquidity Ratios		Leverage Ratios			Profitability Ratios			
		CR	QR	DR	DW	ER	ROA	ROE	GPR	ATR
Automobile	Z-Stat	-0.676	-0.676	-0.626	-0.845	-2.028	-0.845	-1.521	-2.366	-1.014
	Sig Value	**0.013**	**0.013**	**0.049**	0.398	**0.043**	0.398	**0.028**	**0.018**	**0.010**
Energy	Z-Stat	-1.183	-0.676	-1.014	-1.690	-2.028	-0.338	-0.507	-2.366	-2.366
	Sig Value	**0.037**	**0.013**	**0.010**	0.091	**0.043**	0.735	**0.012**	**0.018**	**0.018**
Infrastructure	Z-Stat	-0.135	-0.405	-0.674	-1.483	-2.028	-1.214	-1.753	-2.028	-0.944
	Sig Value	**0.023**	**0.016**	**0.050**	**0.038**	**0.043**	**0.025**	**0.020**	**0.043**	**0.045**
IT	Z-Stat	-0.365	-0.365	-0.730	-0.730	-1.826	-1.461	-1.826	-1.826	-1.826
	Sig Value	**0.015**	**0.015**	**0.045**	**0.045**	0.068	**0.044**	**0.028**	**0.028**	**0.028**
Metals	Z-Stat	-1.324	-0.447	-0.447	-0.447	-0.447	1.342	1.342	1.342	-0.447
	Sig Value	**0.040**	**0.045**	0.655	0.655	0.655	**0.011**	**0.011**	**0.011**	0.655
Packed foods	Z-Stat	-1.324	-1.324	-1.324	-1.324	-1.324	-1.324	-1.324	-1.324	-1.324
	Sig Value	**0.018**	**0.018**	**0.018**	**0.018**	**0.018**	**0.018**	**0.018**	**0.018**	**0.018**
Personal Care	Z-Stat	-0.447	-0.447	-1.324	-1.324	-0.447	-1.324	-1.324	-1.324	-1.324
	Sig Value	**0.045**	**0.045**	**0.018**	**0.018**	**0.045**	**0.018**	**0.018**	**0.018**	**0.018**
Pharmaceuticals	Z-Stat	-1.069	-0.535	-1.604	-1.604	-1.604	-0.535	0.301	-1.604	-1.069
	Sig Value	**0.025**	**0.013**	0.109	0.109	0.109	**0.013**	**0.020**	**0.009**	**0.015**
Others	Z-Stat	-1.604	-1.604	-1.604	-1.604	-0.535	-1.069	-1.069	-1.069	-1.604
	Sig Value	**0.009**	**0.009**	**0.009**	**0.009**	0.593	**0.025**	**0.025**	**0.025**	**0.009**

CR-Current Ratio, QR-Quick Ratio, DR-Debt Ratio, DW-Debt to Worth Ratio, ER- Equity Ratio, ROA- Return on Assets, ROE- Return on Equity, GPR- Gross Profit Ratio, ATR- Asset Turnover Ratio

Source: Compiled from Prowess Database and computed using SPSS

Table 3: Descriptive statistics (A) IFRS users and non-IFRS users and (B) IFRS (SME) users and non-users

	IFRS periods (OBS = 721)					NON-IFRS periods (OBS -1,205)					*T*-test
Variables	Mean	P25	Median	P75	STD	Mean	P25	Median	P75	STD	PV
DCP	43.78	26.79	43.94	59.66	22.51	29.646	11.99	21.68	40.05	26.56	0.00
DCF	46.814	27.55	44.95	61.84	27.10	30.85	12.14	22.49	40.84	28.46	0.00
IFRSEXP	6.88	3	6	10	4.44						
IQ	1.205	−0.24	1.12	2.70	1.89	−0.60	−1.96	−0.78	0.38	2.01	0.00
LRT	12.91	8.62	10.89	16.38	6.90	14.44	8.39	12.80	16.61	10.65	0.001
INF	6.31	1.99	4.219	7.53	14.91	7.48	2.26	4.71	8.35	20.22	0.145
MKT	23.09	0	0	29.42	14.91	16.17	0	0	19.18	31.55	0.004
LGDPPC	8.48	7.85	8.64	9.29	1.15	7.54	6.56	7.53	8.41	1.24	0.000
CCPT	−0.008	−0.53	−0.115	0.516	0.69	−0.52	−0.93	−0.680	−0.24	0.610	0.000

The descriptive statistics of the variables utilized in the estimates are shown in Table 3. We divided the sample observations into users and non-users for both the full IFRS and the IFRSSME. To further investigate differences between users and nonusers, we utilized the T-test. IFRS complete sample is in Panel A, whereas IFRSSME sample is in Panel B. When comparing users and non-users, we found substantial differences in DCP and DCF as well as other control variables, whether they were using IFRS or not. On a consistent basis, we can observe in Panel B that IFRSSME users have greater domestic credit to the private sector (DCP and DCF) than non-users. These reported discrepancies show that IFRS has a systematic impact on sources of financing, as evidenced by the reported differences. It is not too far from the median that the mean of the variables of interest, domestic credit to the private sector (DCP and DCF), is located. But all variables are expressed as a percentage of GDP.

CONCLUSION

As a result of this study, it was determined that the adoption of IFRS would be more beneficial to the world capital market, and that the adoption of rules governing true worth accounting, lease accounting, tax accounting, as well as rules governing the accounting of economic instruments, would be responsible for the changes in key accounting ratios. Accounting numbers and financial ratios have changed as a result of the adoption of fair value accounting standards and tighter requirements for some accounting problems. We need to alter more than just accounting procedures. Everybody involved must learn a new language and a new method of working, while accounting rules are developed on the basis of IFRS. This is a transitional period. The adoption of IFRS by Indian corporations would be a major undertaking, but it may also be extremely profitable. If Indian companies embrace IFRS, they will most certainly gain substantial advantages. Many anticipated advantages of implementing IFRS are evident in the European Union's experience with the standard. IFRS enhanced the quality of financial statements in the opinion of the majority of investors, financial statement preparers, and auditors as a whole. In addition to improving the quality of financial reporting, IFRS adoption should also enhance financial statement dependability. Investors, analysts, and other stakeholders will be more confident in a company's financial statements as a result. The adoption of IFRS by the majority of capital markets across the world has resulted in easier access to money and a decrease in the cost of capital raised.

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