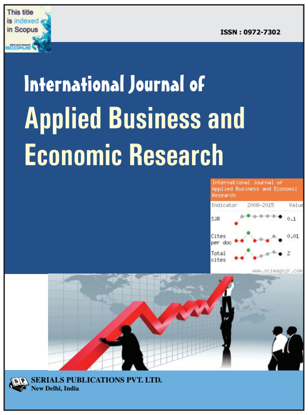

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Impact of Implementation of International Financial Reporting Standard (IFRS) in India

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ABSTRACT

This paper investigates the study to assess the Impact of implementation of International Financial Reporting Standard in India. The main objective of the study is to know the significance and reliability of fundamental characteristics of financial reporting which improves the quality of financial reporting. We examine forty three items to judge the qualitative characteristics of IFRS . The measurement tool is created for getting the significance of fundamental qualitative characteristics, which may enhance the quality of decision. The paper is based on analysis of responses gathered through a questionnaire based survey through primary data of hundred Charted Accountant. The various statistical tools are implemented to know the effect of its implementation. The result reveals that its implementation helps in cost reduction, time saving and other economic benefit also.

Keywords: IAS, GAAP, Fair Value, Reliability, Convergence, Discrepencies, Validity, Significance.

1. INTRODUCTION

Globalization has taken over the world and has ventured into every nook and cranny of business and otherwise. The capital market is no exception to this. The world has seen business and trade taking place since the bygone ages. Thus overseas trading and transaction is quite an old concept. With the advent of time and improvisation of technology, the transaction process as well as investments in foreign land has simultaneously evolved into a global phenomenon.

With this advancement and evolution there is significant demand for ease in the process of business which further demands reduction in the disparities in terms of both policies adopted by various countries as well as the process of preparing financial statements. This is in order to combat the discrepancies that arise due to variations and disparities in the financial reporting standards adopted by various countries and the business houses operating there in.

In order to increase the parity in financial statements and the ease in understanding of the same, the International Accounting Standards Board (IASB) came up with the International Financial Reporting standards (IFRS) in the year 2001.

The IFRS includes the International Accounting Standards (IAS) until these are repealed by any of the IFRS's. The IFRS aims to harmonize the reporting of financial statements as well as to create globally accepted financial reporting infrastructure, fair value presentation of financial statements and to educate the beneficiaries of financial statements with reduced parity in the same.

India being an active member in global business and international trade has summoned to convergence of IFRS with its native accounting standards i.e. the Generally Accepted Accounting Principles (GAAP). This is in the light of increasing foreign investment and reducing the discrepancies in the interpretation of financial statements.

In 2007, the Institute of Chartered Accountants of India (ICAI) initiated the development of a set of accounting standards for convergence with IFRS, to be known as Indian Accounting Standards. Such a convergence is taken up by ICAI and IASB, in order to continue the quality of accounting standards and its subsequent compatibility.

2. REVIEW OF LITERATURE

The adoption of IFRS by both developing and developed countries has been brought about by the increasing growth in international trade and financial transactions and investments between countries which further led to preparation and presentation of accounting reports that are useful across the nations (Armstrong et al., 2007). Other than the US GAAP, other domestic GAAP of most countries are thought to be less comprehensive as compared to IFRS. Various studies have investigated the impact of adoption of IFRS on factors such as cost of capital, quality of earnings and relevance of profits and book value (e.g. Barth, Landsman & Lang 2008; Daski, Hail, Leuz & Verdi, 2008; Barth, Jagolinzer & Reidl, 2010; Hanna, Richardson &Thompson, 2011). The execution and implementation of common international standards shall have the benefits as follows: reduction in cost of processing and auditing of financial information to capital market participants and users, common international standards and reduced disparities due to variations in various domestic financial reporting standards, liberalization of capital market and attraction of foreign investors (Barth, 2007). According to Ball (2006), adoption of IFRS by those countries where the quality of local governance institution is low, shall be beneficial. The shortcomings of implementation of IFRS includes that single set of accounting standards cannot reflect the differences in national business practices caused due to differences in institutions and cultures (Armstrong et al., 2007).

3. RESEARCH METHODOLOGY

The paper is based on analysis of responses gathered through a questionnaire based survey and is largely based on primary data.

The population of this study consists of Chartered Accountants and Financial advisers. The respondents have been selected to gather a comprehensive knowledge about their perception and understanding about the credibility of implementation of International Financial Reporting Standards in India.

The response rate for questionnaire given to the respondents was 90%. The questionnaire consisted of forty two questions spread across the positive and negative impacts of the implementation and use of IFRS and subsequent consequences on existing Indian Accounting Standards.

4. ANALYSIS AND INTERPRETATION

The measurement tool is created for getting the significance of fundamental qualitative characteristics, which may enhance the quality of decision. We have taken "Usefulness of fair value measurement concept in IFRS", "Impact of significance of IFRS in increasing the perceived quality of financial statements among foreign financial users", "Impact of implementation of IFRS on global comparability of financial statements", "Impact on inflow of Foreign Direct Investments", "Impact on volatility on company's earnings", "Extensiveness of IFRS" etc. for measuring the fundamental qualitative characteristics.

Descriptive Statistics

Variables	*N*	*Mean*	*Std. Dev*	*Kurtosis*	*S.E. Kurt*	*Skewness*
"Use of fair value Measurement concept in IFRS will provide useful and accurate information for economic decision making"	21	2.19	0.98	–0.33	0.97	0.64
Educational Institutions should adopt IFRS in their course curriculum.	20	2.1	1.02	–0.27	0.99	0.77
Implementation of IFRS will improve the quality of financial reporting.	20	2.15	1.09	–1	0.99	0.49
Implementation of IFRS will significantly increase the perceived quality of financial statements among the foreign financial users.	20	2.05	1	–0.58	0.99	0.6
Implementation of IFRS will enhance the trust of investors in the information disclosed in the financial statement.	20	2.1	1.02	–0.27	0.99	0.77
Implementation of IFRS will increase the global comparability of financial statements.	20	2	0.97	–0.16	0.99	0.76
IFRS are appropriate for achieving the true and fair view of the financial statements.	20	2.05	1.05	–0.36	0.99	0.8
Implementation of IFRS will increase the relevance of accounting information for decision making.	20	2.15	1.04	–0.62	0.99	0.61
Implementation of IFRS will promote better investment decision making in the capital market.	20	2.15	0.88	0.4	0.99	0.73
Implementation of IFRS will increase the timeliness of management information.	20	2.35	0.93	–0.39	0.99	0.49
Implementation of IFRS will bring in more opportunities of external financing.	20	2.25	0.85	0.24	0.99	0.61
IFRS are flexible.	20	2.65	0.67	0.74	0.99	–0.61
Implementation of IFRS will ensure the use of one standard for both the parent and subsidiary companies	20	2.3	0.73	0.37	0.99	0.34
Implementation of IFRS will have significant positive impact on the information for control and decision making by the users.	20	2.15	0.93	–0.28	0.99	0.54

Variables	N	Mean	Std. Dev	Kurtosis	S.E. Kurt	Skewness
Implementation of IFRS will have positive impact on inflow of Foreign Direct Investments	20	2.25	0.85	0.24	0.99	0.61
Implementation of IFRS will facilitate the Indian Companies to access the foreign capital markets which are based on IFRS.	20	2.3	0.98	–0.59	0.99	0.44
Implementation of IFRS will increase the understandability of financial statements.	20	2.25	0.79	–0.02	0.99	0.23
Implementation of IFRS will lower the cost of capital	20	2.95	0.94	–0.03	0.99	–0.73
Implementation of IFRS will assure the greater accessibility of funds for Indian Companies.	20	2.3	0.8	0.57	0.99	0.74
Implementation of IFRS will increase the cross border listings.	20	2.3	0.8	0.57	0.99	0.74
Adoption of IFRS will provide the professional opportunities the Indian professionals across the globe.	20	2	0.73	2.2	0.99	0.92
International Financial Reporting Standards are complicated in comparison to existing Indian Accounting Standards.	20	2.75	1.07	–1.9	0.99	–0.3
IFRS can not be accepted as global standards as they have not been implemented across the globe.	20	2.8	0.89	–0.86	0.99	–0.6
IFRS requires training for staff owing to its complexities.	20	2.1	0.72	1.73	0.99	0.8
IFRS requires changes in the accounting process.	20	2.5	0.95	–0.72	0.99	0.41
IFRS requires significant changes in the Information Technology Infrastructure.	20	2.35	0.67	0.74	0.99	0.61
Implementation of IFRS will increase the volatality in company's earnings.	20	2.65	0.93	–0.73	0.99	–0.06
Implementation of IFRS will require too much disclosure of financial information which is troublesome.	20	2.75	0.91	–1	0.99	0.09
IFRS recommends the application of fair value concept which is generally difficult to apply.	20	2.5	0.76	–0.04	0.99	0.4
Implementation of IFRS will require major changes in the existing laws.	20	2.55	0.83	–0.4	0.99	0.45
Implementation of IFRS will bring in the decline in the quality of financial reporting.	20	2.95	1.15	–1.03	0.99	–0.13
Implementation of IFRS will increase the time devoted for financial reporting as some of the new standards are complex than existing standards.	20	2.8	0.95	–0.59	0.99	–0.37
Implementation of IFRS will vary from industry to industry thus creating ambiguity in financial statements.	20	2.8	1.01	–1	0.99	–0.25
As IFRS are principle based, implementation of IFRS will require subjective judgements and estimations which may be biased.	20	2.6	0.82	–0.45	0.99	0.28
Implementation of IFRS lacks uniform interpretations by accounting experts.	20	2.65	1.04	–1.29	0.99	0.18
IFRS are too extensive.	20	2.7	0.98	–1.34	0.99	0.31
Implementation of IFRS will give rise to sector specific problems.	20	2.8	1.01	–0.32	0.99	0.44

Variables	*N*	*Mean*	*Std. Dev*	*Kurtosis*	*S.E. Kurt*	*Skewness*
Implementation of IFRS will entail the huge cost in terms of training of staff.	20	2.7	0.86	–0.73	0.99	0.12
Implementation of IFRS will increase the financial burden on the company owing to the increased fees paid to the external auditors and consultants.	20	2.55	0.89	–0.67	0.99	0.59
Implementation of IFRS will increase cost of information processing due to increased information requirements.	20	2.8	0.89	–0.86	0.99	–0.06
Implementation of IFRS will increase cost of Information Technology Infrastructure.	20	2.6	0.82	–0.45	0.99	0.28
Implementation of IFRS will increase cost to the company in terms of tied up resources.	20	2.6	0.75	–0.07	0.99	0.03
The cost of preparing the IFRS financial statements will outweigh the benefits achieved from it	19	2.74	0.87	–0.7	1.01	0.01

The above statistics reveal that the standard deviation in each of the above categories ranges from low to very high. Flexibility in IFRS and use of one standard for both the parent and subsidiary companies have relatively low standard deviation whereas impact of IFRS to increase the global comparability of financial statements has a high standard deviation and impact on variation from industry to industry thereby creation of ambiguity in financial statements and rise to sector specific problems due to implementation of IFRS have very high standard deviation, these depict that all the variables can be adequately studied to analyse the relationship between the level of impact that the implementation of IFRS shall have on Indian accounting standards and financial statements.

This table shows that fundamental qualitative characteristics like reliability, fair value measurement, timeliness, flexibility, investment decisions, opportunities of external financing, accessibility of funds, impact on cross border listings, training cost, increase in external fees to consultants and auditors, cost of information processing and cost in terms of tied up resources are most important in relation to quality of financial reporting. The mean is higher and standard deviation is having low scores for fundamental qualitative characteristics which leaves its impact on ....

5. REGRESSION

Model Summary [“Use of fair value Measurement concept in IFRS will provide useful and accurate information for economic decision making”]

R	*R Square*	*Adjusted R Square*	*Std. error of the Estimate*
1	1	1	NaN

ANOVA [“Use of fair value Measurement concept in IFRS will provide useful and accurate information for economic decision making”]

	Sum of Square	*Df*	*Mean Square*	*F*	*Sig.*
Regression	15.79	46	0.38	–1.18326E+15	NaN
Residual	0	-24	0		
Total	15.79	18			

Coefficient ["Use of fair value Measurement concept in IFRS will provide useful and accurate information for economic decision making"]

	Unstandardized Coefficieents		*Standardised Coefficient*	*t*	*Sig.*
	B	*Std. Error*	*Beta*		
[Const.]	5.69	1.04	0	5.46	NaN
Educational Institutions should adopt IFRS in their course curriculum.	3.88	0.84	3.9	4.62	NaN
Implementation of IFRS will improve the quality of financial reporting.	–1.56	NaN	–1.71		NaN
Implementation of IFRS will significantly increase the perceived quality of financial statements among the foreign financial users.	–2.96	0.5	–2.88	–5.86	NaN
Implementation of IFRS will enhance the trust of investors in the information disclosed in the financial statement.	0	0	0	NaN	NaN
Implementation of IFRS will increase the global comparability of financial statements.	0.77	0.45	0.72	1.7	NaN
IFRS are appropriate for achieving the true and fair view of the financial statements.	–1.12	NaN	–1.16	NaN	NaN
Implementation of IFRS will increase the relevance of accounting information for decision making.	1.82	0.26	2.04	7.12	NaN
Implementation of IFRS will promote better investment decision making in the capital market.	0.29	0.2	0.25	1.46	NaN
Implementation of IFRS will increase the timeliness of management information.	0.34	NaN	0.32	NaN	NaN
Implementation of IFRS will bring in more opportunities of external financing.	2.71	0.42	2.21	6.44	NaN
IFRS are flexible.	1.76	0.31	1.28	5.69	NaN
Implementation of IFRS will ensure the use of one standard for both the parent and subsidiary companies	0.53	NaN	0.35	NaN	NaN
Implementation of IFRS will have significant positive impact on the information for control and decision making by the users.	–1.78	0.53	–1.62	–3.34	NaN
Implementation of IFRS will have positive impact on inflow of Foreign Direct Investments	–3.97	0.68	–3.24	–5.87	NaN
Implementation of IFRS will facilitate the Indian Companies to access the foreign capital markets which are based on IFRS.	–0.55	NaN	–0.54	NaN	NaN
Implementation of IFRS will increase the understandability of financial statements.	–0.8	NaN	–0.67	NaN	NaN
Implementation of IFRS will lower the cost of capital	0.53	NaN	0.53	NaN	NaN
Implementation of IFRS will assure the greater accessibility of funds for Indian Companies.	1.33	NaN	1.01	NaN	NaN
Implementation of IFRS will increase the cross border listings.	0	0	0	NaN	NaN
Adoption of IFRS will provide the professional opportunities the Indian professionals across the globe.	1.58	0.27	0.96	5.83	NaN

	Unstandardized Coefficieents		*Standardised Coefficient*	*t*	*Sig.*
	B	*Std. Error*	*Beta*		
International Financial Reporting Standards are complicated in comparison to existing Indian Accounting Standards.	–0.59	NaN	–0.66	NaN	NaN
IFRS can not be accepted as global standards as they have not been implemented across the globe.	–0.33	NaN	–0.31	NaN	NaN
IFRS requires training for staff owing to its complexities.	1.46	0.19	1.15	7.7	NaN
IFRS requires changes in the accounting process.	–0.11	0.23	–0.11	–0.48	NaN
IFRS requires significant changes in the Information Technology Infrastructure.	–0.92	NaN	–0.67	NaN	NaN
Implementation of IFRS will increase the volatality in company's earnings.	–0.42	NaN	–0.42	NaN	NaN
Implementation of IFRS will require too much disclosure of financial information which is troublesome.	–0.42	0.08	–0.41	–4.92	NaN
IFRS recommends the application of fair value concept which is generally difficult to apply.	0.14	0.17	0.12	0.86	NaN
Implementation of IFRS will require major changes in the existing laws.	1.96	0.29	1.75	6.71	NaN
Implementation of IFRS will bring in the decline in the quality of financial reporting.	–0.72	NaN	–0.89	NaN	NaN
Implementation of IFRS will increase the time devoted for financial reporting as some of the new standards are complex than existing standards.	2.23	0.34	2.28	6.65	NaN
Implementation of IFRS will vary from industry to industry thus creating ambiguity in financial statements.	–1.11	0.2	–1.2	–5.44	NaN
As IFRS are principle based, implementation of IFRS will require subjective judgements and estimations which may be biased.	–2.61	0.38	–2.32	–6.92	NaN
Implementation of IFRS lacks uniform interpretations by accounting experts.	0.21	0.16	0.24	1.33	NaN
IFRS are too extensive.	–0.71	0.21	–0.75	–3.37	NaN
Implementation of IFRS will give rise to sector specific problems.	–0.24	NaN	–0.26	NaN	NaN
Implementation of IFRS will entail the huge cost in terms of training of staff.	1.73	–41	1.61	4.25	NaN
Implementation of IFRS will increase the financial burden on the company owing to the increased fees paid to the external auditors and consultants.	–1.83	0.25	–1.76	–7.34	NaN
Implementation of IFRS will increase cost of information processing due to increased information requirements.	–1.18	0.15	–1.13	–7.67	NaN
Implementation of IFRS will increase cost of Information Technology Infrastructure.	0.93	0.05	0.83	17.28	NaN
Implementation of IFRS will increase cost to the company in terms of tied up resources.	–0.22	0.24	–0.18	–0.94	NaN
The cost of preparing the IFRS financial statements will outweigh the benefits achieved from it	–0.97	0.26	–0.9	–3.75	NaN

Reliability and Calidity Checks

All qualitative characteristics are measured with the help of statistical tools such as Descriptive statistics such as mean, kurtosis, skewness, Regression Analysis, ANOVA, Chi Square test and Cluster (K max) Analysis. So we constructed a forty three item index for comprehensive measurement of qualities of financial reporting in terms of qualitative characteristics and quantitative characteristics. It was necessary to rate the judgement due to lack of internal information which causes problem in interpretation and qualification of qualitative characteristics. The positive values of the table suggest that implementation of IFRS in organizations will enhance the fundamental quality of financial statements.

The regression analysis tool has limitations related to validity and reliability because data is limited to the extent of forty three. But such insight may also lead to cause deeper understanding concurrent to assessment of qualitative characteristics of financial reporting.

6. CONCLUSION

The main objective of our study is to know the significance and reliability of fundamental characteristics of financial reporting which improves the quality of financial reporting. So we constructed forty three item indexes. Our test proves that quality of financial reporting enhances the quality of financial statements as it may improve the efficiency of decision makers and quality of decisions by reducing the cost of capital and time. To construct the validity of index, we have taken suggestions from literature review. Our result shows the impact of various variables.

The study was conducted to assess the Impact of implementation of IFRS in India. As per the results of the study the implantation of IFRS in India is expected to be largely beneficial in spite of the implementation issues and challenges. With adoption, implementation of IFRS will promote better investment decision making in the capital market, positive impact on inflow of Foreign Direct Investments, increase the global comparability of financial statements and will bring in more opportunities of external financing.

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