Journal of Accounting and Finance
Volume 32, No. 1
October 2017-March 2018

The Effect of Mandatory Ind As Adoption on Financial Statements & Performance Indicators of Select Listed Companies In India

Geetanjali Purswani and Shreedevi Moleganvi

Abstract

The Ministry of Corporate Affairs (MCA) mandated the Ind AS adoption for listed companies in their financial reporting from 2016-17. Several companies published their annual reports according to the Ind AS. Transition phase is the best time to capture the efficiency of any practice. Being the first year of adoption, the companies have shown their financial results both as per Indian GAAP and Ind AS. Present study compares 10 financial ratios under Ind AS and IGAAP as reported in their financial statement at the end of the year 31st March 2017. The study explains the changes in the financial statement items and their significance level after adoption of Ind AS in India. The results indicated change in revenue significant at 5% level, other changes were not found to be significant. Applying cross sectional sample t-test to analyze the significance level of the difference between Ind AS and IGAAP tests hypothesis. Out of 10 ratios, 9 were found to be statistically not significant and one is relatively significant. Further, This shows that adoption of Ind AS does not have significant impact on the performance indicators of the companies.

Keywords: *IFRS, Ind AS, IGAAP, Globalization, Financial Statements*

Introduction:

Globalization of economies empowered organizations to raise finances abroad and furthermore required them to contact financial specialists outside their nation of origin. Organizations were required to conform to administrative necessity of documenting monetary reports according to the nation of origin's guidelines. These guidelines are different in different countries. To have straightforward arrangement of detailing which decreases cost of raising capital, and furthermore satisfies administrative prerequisites of various nations, a uniform arrangement of book keeping was felt vital. To be able to remain relevant and bring convenience to investors present all over the world, it was necessary that company accounts were prepared similarly in different countries. The already existing International Accounting Standards as followed uniformly by the Euro Zone countries became a yardstick for people

Geetanjali Purswani, Assistant Professor, Christ University (Deemed to be University) , Bangalore,Karnataka,India
'**Shreedevi Moleganvi**, Research Scholar, Christ University (Deemed to be University), Bangalore, Karnataka,India

to adopt all over the world. Different countries wanted to adopt International Accounting Standards. The committee was renamed from International Accounting Standards Committee to International Accounting Standards Board and they brought International Financial Reporting Standards for the countries to follow. The authorities in every country are given a choice either to completely adopt or harmonize the standards to be applied on the organizations in their zones. Approximately 120 nations have received IFRS and numerous others have agreed to embrace IFRS soon. India decided to take the path of harmonization. After the required changes in existing IFRS, Indian Accounting Standards Board prepared the list of standards applicable to India. These were called Ind AS. The Ministry of Corporate Affairs (MCA) mandated the Ind AS adoption for listed companies in their financial reporting from 2016-17. The adoption of Ind AS which is a harmonized form of IFRS, is concentrated on global trade for increasing the internationalization in India.

The merging of Ind AS relies on how well the Ind AS is executed and how successfully organizations are receiving this change. The main reason for implementation of Ind AS is to increase global trade. Several Indian companies, which were listed in foreign stock exchanges had started reporting according to IFRS willfully from 2009 onwards. Since regulatory requirements are different for different countries, there is an emphasis on preparation of multiple financial reporting statements, according to such regulatory requirements. During such situations, the benefits of IFRS can be highlighted. IFRS is a standard system of expressing the financial statements in a uniform manner. Ind As will help companies listed in India to prepare financial statements, which are comparable to similar companies in the international markets thus making it convenient for investors to understand the performance of these companies.

Present study aims at finding if the adoption of Ind AS has brought any significant change in the Financial Items as reported by companies and also if their financial Performance, as indicated by Financial Ratios has undergone any change.

Review of Literature:

Chandrasekar, V. and Kumar, D N S. (2017) have explained the changes of IFRS and Indian GAAP with the comparison of 5 years financial statements of selected Indian companies who voluntarily adopted IFRS in their reports. The study revealed that fair value of accounting, lease accounting, financial instruments are the main reasons for the change in financial ratios analyzed. Shukla, S. (2015) tests the impact of IFRS adoption on the financial activities of a sample of 10 listed companies in India and found that there is no significant improvement in the financial risk, investment activities, operating activities and debt covenant.

Chandarsekar, V. and Kumar. D N S (2016) conducted a case study, which tries to find the impact of IFRS adoption on financial decisions of Wipro Ltd. The study indicated that there was a considerable increase in liquidity ratios, equity ratios and interest coverage ratio, and there is a marginal increase in debt-equity ratio and no significant increase in any profitability ratios. Das S (2014) revealed that the adoption of IFRS does not have a significant effect on activity based ratios of Indian firms. Ordia. S and Bhanawat. S. S (2017) tried to determine the share holders' wealth in terms of EVA (Economic Value Added) before and after adoption of IFRS in Indian companies. The study reveals that there is no improvement in EVA and EVA related financial parameters due to adoption of IFRS. Athma P and Rajalaxmi N (2013) focused on the presentation of the phase-wise implementation and analyzing the sector-wise implementation of IFRS in India and concluded that there will be necessary and mandatory changes in the accounting practices in India for the globalization. Bhargava, V., & Shikha, D. (2013) examined the impact of IFRS adoption on financial activities and the study resulted that there is no significant improvement in financial risk, investment activities, operating activities and debt covenant after adoption of IFRS.

Al-Absy, M. S. M., Ku, K. N. I., & Al-Dubai, S. A. A. (2016) examined the different perspectives regarding the IFRS adoption and found that all respondents showed a positive perception about IFRS in Yemen. Christensen H B, Lee L and Walker M (2009) explained the changes in the debt contracting by using reconciliation of UK GAAP earnings to IFRS earnings by UK firms after the mandatory adoption in 2005, which found that the reconciliation convey price sensitive information to the market and had greater market reaction after adoption.

Jain P (2011), explained the opportunities and challenges of IFRS adoption in India, and discussed the adoption of IFRS procedure in India, benefits for India in adopting IFRS, problems of stakeholders in the process of adoption of IFRS in India; and alternative possibilities through which these problems can be solved. And the study reveals that guaranteeing a high quality corporate financial reporting environment relies upon compelling Control & Enforcement Mechanism and only receiving International Financial Reporting Standards is not sufficient. Shrivastava P, Rawat DS and Maheshwari D (2015), conducted 'A Study on Challenges and Prospects of IFRS in Indian Accounting System' and examined implications of importance of IFRS in the present situation and the process in adopting IFRS and the prospect of International Financial Reporting Standards will affect the Indian corporate. And the study reveals that steady with the view that obligatory IFRS adoption enhances information comparability across countries.

A case study on the analysis of Wipro Ltd on key financial ratios after adoption of IFRS, by Gupta P, Akhter J and Chaklader B (2017) and tested key financial ratios between Indian GAAP and IFRS of 6 years (2009-10 to 2014-15) of Wipro Ltd. and this study indicated that there are significant differences between the ratios calculated as per Indian GAAP and IFRS.

Sambaru, M., & Kavitha, N. V. (2014), conducted a study on IFRS and explained need for convergence towards global standards, comparison between IFRS and GAAP principles, recent trends, benefits and challenges and even impact of IFRS on corporate sector in India. Parvathy, P. R. (2017) explained the opportunities and challenges after convergence of IFRS in India and provided investigated the scene of IFRS adoption in India and inspected the India`s utility or opportunity in IFRS adoption. And the study reveals that IFRS will provide greater credibility for India in international capital market. Katta AK (2015), examined the IFRS adoption on financial decisions and compared four years annual reports between IFRS and IGAAP of Wipro Ltd. And the study indicated that considerable increase in liquidity ratios, equity ratio and interest coverage ratio, marginal increase in debt equity ratio and no significant increase in any of the profitability ratios.

Objectives:

- To compare the financial statement items and key financial ratios of selected companies before and after adoption of Ind AS.

- To ascertain the significance level of impact of Ind AS adoption on financial statements items of selected companies.
- To ascertain the significance level of impact of Ind AS adoption on financial ratios of the selected companies.

Research Methodology:

The study is based on the secondary data and the data is collected from the annual reports (2017) of 10 companies listed in Bombay Stock Exchange. There financial statements were used to get all the required information on Ind AS and IFRS. This study conducted comparison of financial items and ratio analysis on the given data. The study analyzes both balance sheet and income statement of 2016-17 and cross sectional sample t-test has been applied to test the significance level of difference between Indian GAAP and Ind AS by using E-views version 8. The scope of the study is restricted to one year.

The selected companies include:

S. No.	*Company*	*S. No.*	*Company*
1.	Infosys	2.	JSW Steel
3.	Hindustan Unilever Limited.	4.	Marico
5.	Havells, India Limited	6.	Ultratech Cement Limited
7.	Bharti - Airtel Limited	8.	Ashoka Leyland
9.	NMDC, Limited	10.	Colgate - Palmolive (India) Limited

Hypothesis:

The study is based on two Hypotheses, namely:

H01: There is no significant change in the values of the financial items between Ind AS and IGAAP

H02: There is no significant change in the financial ratios between Ind AS and IGAAP.

Limitations of the Study:

1. The study is restricted to one year comparison of IGAAP and Ind AS, as the adoption of Ind AS in India became mandatory from 2016-17.
2. Only 10 companies have been selected for the purpose of this study. So, the findings can not be generalized.

Data Analysis and Interpretation:

Objective 1: To compare the financial statement items and key financial ratios of selected companies before and after adoption of Ind AS.

This objective has been accomplished in two phases. First the changes in Financial Item real values has been taken and then financial ratios have been calculated to find the changes in IND AS over IGAAP. Finally, descriptive statistics have been used to explain the changes.

Table: 1. Percentage Change In Financial Statement Items **(Values in crores)**

Particulars	*Sum Under IGAAP*	*Sum Under Ind AS*	*Difference*	*% Change*
Revenue 806024.1	816345.51	10321.41	0.0128	
Net Income	102945.37	102229.29	-716.08	-0.0070
Current Assets	224584.78	224564.66	-20.12	-0.0001
Current Liabilities	358983.37	345491.2	-13492.17	-0.0376
Share Holders Equity	988144.74	1269099.07	280954.33	0.2843
Long Term Financial Assets	491769.45	749247.96	257478.51	0.5236
Short Term Financial Assets	176031.49	174966.05	-1065.44	-0.0061
Long Term Investments	448629.74	717890.49	269260.75	0.6002
Short Term Investments	4633.42	5131.59	498.17	0.1075

Table-1 shows the sum of financial items recorded in the financial statements by IGAAP and Ind AS, difference Ind AS values over IGAAP as well as the percentage change of that difference amount.

1. Percentage Change = (Sum under Ind AS - Sum under IGAAP) / Sum under IGAAP

There is a 3.76% decrease in current liabilities while reporting under Ind AS and IGAAP. And there is only 0.01% decrease in current assets. Shareholders' equity shows an increase of 28.43%. Increase in shareholders' equity under Ind AS explains the increase in the profitability of the companies. And net income (-0.7%) and revenue (1.28%) have minimal change in the values respectively. And the long term financial assets (52.36%) and long term investments (60.02%) have extreme increase in values in Ind AS as compared to IGAAP. The high increase in the values of long term items of the companies will also affect the profitability of the companies. Short term financial assets (-0.61%) had a slight decrease and short term investments (10.75%) marginal increase their values, that shows there will not be huge difference in the short term financial assets after adoption of Ind AS.

Table 2: Percentage Change In Financial Ratios of the Companies

Financial Ratios	*IGAAP*	*Ind AS*	*Percentage Change*
Liquidity Ratios:			
Current Ratio	0.626	0.650	2.44%
Quick Ratio	0.626	0.598	-2.80%
Cash Ratio	0.0981	0.0960	-0.21%
Debt Ratios:			
Debt-equity ratio	0.8687	0.6676	-20.11%
Debt ratio0.2454	0.2158	-2.96%	
Equity Ratio:			
Return on Equity	0.1042	0.0806	-2.36%

Financial Ratios	*IGAAP*	*Ind AS*	*Percentage Change*
Proprietary fund Ratio	0.5349	0.6006	6.58%
Profitability Ratios			
Net Profit Ratio	0.1277	0.1252	-0.25%
Fixed asset turnover ratio	1.9786	1.9905	1.19%
Return on capital employed	0.0692	0.0578	-1.13%

Table-2 shows the descriptive analysis of the financial ratios under Ind AS and IGAAP and percentage change of the ratios as per Ind AS over I GAAP. The calculated ratios include liquidity ratios (Current, Quick and Cash), leverage ratios (Debt and Debt equity), equity ratios (Return on equity and Proprietary fund ratio and profitability ratios (Net profit, Fixed turnover and Return on capital employed). The equation used for the calculation is:

2. Percentage Change = (Ratio as per Ind AS - Ratio as per IGAAP) / Ratio as per IGAAP

Maximum change has been seen in Debt-equity ratio, with a negative 20.11% change. Other than this, Proprietary Fund Ratio shows a positive 6.58% change. All other changes are less than 2 percent positive or negative.

Objective 2: To ascertain the significance level of impact of Ind AS adoption on financial statements items of selected companies.

For this purpose, the hypothesis has been framed as under:

H01: There is no significant change in the values of the financial items between Ind AS and IGAAP

Table: 3. Cross Sectional Sample T-test of Change In Financial Items

Particulars	*Mean*	*SD*	*t-value*	*Probability*
Revenue 0.0403	0.046233	2.756493	0.0222	
Net Income	-0.09869	0.200069	-1.559886	0.1532
Current Assets	0.0017	0.024616	-0.218388	0.832
Current Liabilities	0.07167	0.113592	-1.99521	0.0771
Cash 0.08996	0.313569	-0.907227	0.3879	
Share Holders Equity	0.12605	0.216286	1.842958	0.0984
Long Term Financial Assets	-0.2406	0.463084	-1.642994	0.1348
Short Term Financial Assets	-0.01501	0.158371	-0.299712	0.7712
Long Term Investments	0.12681	0.393011	1.02035	0.3342
Short Term Investments	0.02442	0.053764	1.436332	0.1847

Source: All calculations are done using E-views version 8

Table-3 explains the changes in the values after adoption of Ind AS and also the significance level of change in the values of financial items between Ind AS and IGAAP. Cross Sectional Sample t-test applied to the cross-sectional data (single year data with several companies) by using E-views version 8. The table shows that only change in revenue is significant, change in all other variables is insignificant at 0.05 level of significance.

Objective 3: To ascertain the significance level of impact of Ind AS adoption on financial ratios of the selected companies.

For the purpose of this objective, a hypothesis has been developed as under:

H02: There is no significant change in the financial ratios between Ind AS and IGAAP.

Table: 4. Cross Sectional Sample T-test of Change In Financial Ratios

Financial Ratios	*Mean*	*SD*	*t-value*	*Probability*
Liquidity Ratios:				
Current Ratio	0.1417	0.368761	1.215137	0.2552
Quick Ratio	-0.2169	0.518567	-1.32268	0.2186
Cash Ratio	0.05055	0.216594	0.738033	0.4793
Leverage Ratios:				
Debt-equity ratio	-0.0106	0.020963	-1.43887	0.184
Debt ratio-0.00072	0.016543	-0.13763	0.8936	
Equity Ratio:				
Return on Equity	-0.05695	0.123402	-1.45939	0.1785
Proprietary fund Ratio	0.04046	0.061569	2.07808	0.0675
Profitability Ratios				
Net Profit Ratio	0.04046	0.061569	-1.59899	0.1443
Fixed asset turnover ratio	0.07131	0.303695	0.742527	0.4767
Return on capital employed	-0.04451	0.09142	-1.53963	0.158

Source: All calculations are done using E-views version 8

Table-4 provides the analysis of percentage change of financial ratios under Ind AS and IGAAP. It gives the significant change in key financial ratios after adoption of Ind AS. Cross Sectional Sample t-test applied for testing the significance level from the difference between Ind AS and IGAAP by using E-views version 8. Table-4 shows the t-value and probability of the hypothesis tested for the calculated key financial ratios. Only change in Proprietary Fund Ratio is found to be relatively significant. Changes in all other ratios are found to be insignificant.

Conclusion and Future Scope:

This paper attempts to study the impact of Ind AS on financial aspects of the 10 selected Indian companies. The results reveal that there is no significant impact on the financial items and key financial ratios after convergence of IGAAP to Ind AS in India. Overall the items of financial statements has a marginal change in their values but it does not have any significant changes after adoption of Ind AS. And also, the key financial ratios has marginal differences in their values and has no significant change after adoption. This is in line with the outcome of the studies conducted by Das S (2014) & Chandrasekhar V & Kumar DNS (2017) where it was found that IFRS adoption did not bring significant changes in the ratios of the companies. Thus, it can be said that though IFRS in the form of Ind AS has been made mandatory for the companies listed in India, the change in the financial valuations and ratios is not significant. For further studies, more companies and many years of data can be taken for better analysis and sector wise studies can also be conducted.

References:

Al-Absy, M. S. M., Ku, K. N. I., & Al-Dubai, S. A. A. (2016). Accountants' Perceptions on the Adoption of International Financial Reporting Standards in Yemen. International Journal of Economics and Financial Issues, 6(4).

Athma, P., & Rajyalaxmi, N. (2013). Accounting standards in india: Adoption of IFRS. Journal of Commerce and Accounting Research, 2(2), 39.

Bhargava, V., & Shikha, D. (2013). The impact of International Financial Reporting Standards on financial statements and ratios. The International Journal of Management, 2(2), 1-15.

Chandrasekar, V., & Kumar, D. N. S. (2016). Impact of IFRS Adoption on Financial Decisions Case Study of Indian Information Technology Industry: Wipro Ltd. Journal of Financial Management & Analysis, 29(2).

Chandrasekar, V., & Kumar, D. N. S. (2017). Impact of IFRS on the Financial Statements of Select IT Companies in India. Indian Journal of Finance, 11(5), 7-18.

Christensen, H. B., Lee, E., & Walker, M. (2009). Do IFRS reconciliations convey information? The effect of debt contracting. Journal of Accounting Research, 47(5), 1167-1199.

Das, S. (2014). Impact of IFRS adoption compared with Indian GAAP on activity based ratio: An analysis based on selected Indian companies. Pacific Business Review International, 7(3), 93-100.

Gupta, C. P., Akhter, J., & Chaklader, B. (2017). The Impact of IFRS Adoption on Key Financial Ratios-An Analysis of Wipro. Imperial Journal of Interdisciplinary Research, 3(4).

Jain, P. (2011). IFRS implementation in India: Opportunities and challenges. World Journal of Social Sciences, 1(1), 125-136.

Katta, A. K. (2015). International Financial Reporting Standards (IFRS) Adoption on Financial Decisions. Journal of Accounting and Marketing, 4(3).

Ordia, S., & Bhanawat, S. S. (2017). The Impact of Adoption of IFRS on Shareholders' Wealth: A Study of Select Indian Companies. IUP Journal of Accounting Research & Audit Practices, 16(2), 7

Parvathy, P. R. (2017). IFRS Convergence: Opportunities and Challenges in India. Accounting and Financial Control, 1(2).

Rawat, D. S., & Maheswari, D. (2015), A Study on Challenges and Prospects of IFRS in Indian Accounting System. International Journal of Core Engineering & Management, 2(4).

Sambaru, M., & Kavitha, N. V. (2014). A Study on IFRS in India. International Journal of Innovative Research and Development, 3(12).

Shukla, S. An Empirical Study of the Impact of Adoption of IFRS on the Financial Activities of Companies in India.