An Empirical Study of Accounting Expert's Perception for Implementation of International Financial Reporting Standards in India

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Abstract

The study examines the perception of accounting experts regarding the benefits and challenges of IFRS implementation in India and the relation between perception of accounting experts and their age, educational qualification, occupation and number of years of experience. The study is based on questionnaire survey of accounting experts. Data was empirically analyzed using Kruskal-Wallis Test. Data analysis suggests that accounting experts are optimistic towards the benefits associated with the implementation of IFRS though significant costs and challenges associated with the implementation of IFRS remains a cause of concern. The study further concluded that the perception of accounting experts is independent of age, education, occupation and number of years of experience of accounting experts. There is a possibility that some respondent may have bias responses owing various types of professional and peer pressures. The viewpoint of accounting experts regarding the opportunities and challenges associated with the implementation of IFRS has not been researched in India. It is necessary to research that whether the perception of accounting experts is dependent upon their individual attributes like age, education, experience and qualification to bring about the uniformity in the reporting structures. It is further necessary to understand the challenges and opportunities faced by the accounting experts in order to deal with them (opportunities & challenges) at a common forum. As the India's application date is fast approaching, it seems to be necessary to understand the perception of the buyers and sellers of accounting standards meaning thereby the accounting experts. Therefore, the study is timely and assists in providing important insights from the accounting experts.

Keywords: IFRS, Convergence of IFRS in India, Opportunities, Challenges, IFRS Survey

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INTRODUCTION

Forces of globalization and liberalization have turned the way business is being conducted. In the era of rapid industrialization and increasing cross border transactions it would be appropriate to refer to the world as an economic village. Advanced telecommunication system has increased communication amongst countries and free trade and outsourcing have opened up many business opportunities for new and existing businesses. Due to advanced technology it is now possible to own a business in one country and do business in another part of the globe. A number of multinational companies are establishing their business across the world.

With the ever increasing growth of multinational corporations there is even greater agency conflict. Companies are owned by shareholders while they are being managed by the directors and the management team who may or may not be the owners of the company. Divorce between ownership and management generates agency conflict. Following Jensen and Meckling (1976) it is important to ensure quality reporting to reduce information asymmetries. Quality financial reporting ensures better control for the principal over the agent. It has been pointed out in a study by Lang and Lundholm (1996) that analysts precision and prediction of performance has a positive association with the level of company's financial disclosure. Clarity of enforcement laws and litigations, sound accounting education system and other environmental motivating factors affect the incentives and competence of preparers, auditors and users of financial reports as highlighted by Jacob and Madu (2008).

Sound financial reporting structure is imperative for effective functioning of capital market. Increasing number of Indian companies has been listed on international stock exchanges. The use of multiple accounting frameworks in different countries having different treatment of same economic transaction creates confusion and ambiguity in the minds of users. Increasing complexity and cross border transactions have further added to this confusion. Globalization and integration of capital markets call for high quality globally accepted accounting language.

Unfortunately, India has been hit by the accounting frauds like Satyam which have not only tarnished the image of India worldwide but investors have lost the confidence on the accounting statements. It would be worthwhile to quote here that not only India but worldwide economy has been victim of accounting frauds like Enron and Lehman Brothers.

As entities seek to access funds globally, investors who may be located in different parts of the world rely upon the same financial statements. Investors need to be convinced that the financial statements are true and fair. To boost and maintain the confidence of investors, it becomes the responsibility of the accounting community to adopt common language of accounting worldwide to ensure quality disclosure and transparency. Thus, the case for a single set of globally accepted accounting standards has prompted many countries to pursue convergence of national accounting standards with International Financial Reporting Standards. Rapid globalization, cross border transactions, international mergers and acquisitions, foreign investors and existence of multinational corporations build a strong case for harmonization of accounting practices worldwide. Thus it is necessary to implement sound and transparent financial reporting structure to ensure the economic wellbeing, relevance completeness, understandability, reliability, timeliness, neutrality, consistency and comparability of accounting information. International Financial Reporting Standards (IFRS) provides a single set of accounting standards that the corporate sector could ideally adopt to prepare and communicate financial information to the stakeholders across the world. Financial statements that are based on common universal accounting principles will enable the world to exchange and analyze financial information in a meaningful manner. This builds a strong case for India to match itself with the international reporting practices. International Financial Reporting Standards are expected to improve the image of the Indian industry and the accounting profession in the eyes of the world. Among the finance and accounting fraternity International Financial Reporting Standards are considered as the global standards which every country should adopt.

The process of implementation of IFRS started in the year 2000 at the European Council meeting held on 23-24 March 2000. European

Union mandated the adoption of IFRS for listed entities from 1st January 2005. Certain other countries have announced their intention to follow IFRS from future dates. IFRS have been drawing greater attention ever since the European Union adoption. For non-US companies United States Securities Exchange Commission accepts the IFRS based financial statements without reconciliation from third country issuers. This globally accepted set of accounting regulations should now get better prominence in India.

Institute of Chartered Accountants of India (ICAI) expressed its view that adoption of IFRS will be beneficial for listed entities as it will reduce the cost of preparing two sets of financial statements and savings in cost of capital for Indian companies raising capital abroad. Implementation of IFRS is a challenging task and various issues like conflicting regulatory and legal framework, preparedness of industry and accounting professionals for the same and many more needs to be addressed. At present more than 140 countries have adopted or decided to adopt these standards as per Patro and Gupta (2012). India was supposed to adopt them from 1st April 2011 but the decision was reversed and as per the Government decision now it will be applicable from 1st April 2016 and the implementation is awaited. However, many corporate in India like Wipro, Infosys, Dr Reddys, Dabur are voluntarily preparing their financial statements as per IFRS.

THEORETICAL FRAMEWORK

The relationship between the accounting standards and accounting quality has been a cause of much discussion among the accounting fraternity. A study by Barth, Landsman and Lang (2008) examined whether application of International Accounting Standards (IAS) is associated with higher accounting quality. Inferences of the study are based on accounting quality metrics for a broad sample of firms in 21 countries that adopted IAS from 1994 to 2003. Accounting quality for the firms that apply IAS are compared with the non-US firms that do not apply IAS. It was inferred that the firms of 21 countries which were applying IAS evidence less earning management, more timely loss recognition and more value relevance of accounting amounts. The author also compared the accounting quality for IAS firms in the period before and after they adopted IAS and concluded that accounting quality has improved between the pre and post adoption periods. A similar study was conducted through mail survey to explore the perceived quality and complexity of IFRS amongst the Chief Financial Officers (CFO) of Australian listed firms. This study concluded that the large number of participants agreed that financial reporting under IFRS is more complex and time consuming as compared to the previous Australian Accounting Standards. Another comprehensive study conducted by Daske (2006) to assess the quality financial statements after the implementation of IFRS in Australia, Germany and Switzerland revealed that disclosure quality increased significantly after the implementation of IFRS. The study made use of available disclosure quality scores extracted from detailed analyses of annual reports by reputed accounting scholars Pawsey (2008).

Studies have been conducted in various parts of the world to examine the effect of IFRS on quality of disclosure, complexity of IFRS, understandability of IFRS, cost benefit analysis of IFRS, perception of accountants and auditors regarding the implementation of IFRS. The cost of implementing and adopting IFRS has been a cause of serious concern. A study was conducted in Greece through a questionnaire to investigate the costs and benefits associated with the implementation and adoption of IFRS. The findings of the survey indicate that though the respondents are of the belief that implementation of IFRS has improved the quality of published financial statements of the Greek firms, they have serious reservations regarding the cost of implementation of IFRS. Costs of implementing IFRS have been classified under four broad categories: personnel training cost, consultant's fee, preparation of two set of accounts and cost of adjusting existing information systems.

It is debatable as to how far IFRS will openly be accepted by the emerging economies. A questionnaire based survey was conducted in Vietnam. The questionnaire-based study was conducted to assess the viewpoint of Vietnamese accounting professionals. The analysis of responses suggests that accounting professionals are optimistic about potential benefits of implementing IFRS though they have anticipated considerable cost in the implementation of IFRS. Two different sub-groups were analyzed and the results indicate that accountants and accounting professionals possess different perception on various issues of IFRS. Accountants and auditors revealed that language is perceived to be an important factor in the implementation of IFRS, while training of staff remains to be a serious concern. In non-English countries translation of IFRS to local language poses serious hurdle as per Phan, Mascitelli, and Barut (2013). The results of this study are very useful for the countries that are on the verge of IFRS convergence, like India. A similar type of perception study was conducted by Wahyuni and Lay (2010) in Indonesia through a survey. The overall result of the study revealed the positive perception of accounting professionals towards IFRS convergence in Indonesia. Training to staff and language barriers continued to be an important issues.

There is a general perception that IFRS will increase the cost to the company as it is more complex when compared to respective national accounting standards. An empirical research was conducted in Spain by Navarro-Garcia and Bastida (2010) concluded that preparers do not consider IFRS to be better than Spanish accounting standards. Preparers have negative perceptions for some of the important changes required by IFRS. The positive side of the empirical study indicated that implementation of IFRS will enhance users' decisions-making.

The advantages and disadvantages of implementing IFRS are peculiar to respective countries, based on the availability of resources. Cost and complex nature has been a cause of concern for implementing and adopting IFRS. Girbina, Minu, Bunea and Sacarin (2012) envisaged in the research conducted in Romania, Romanian bankers are positive regarding the implementation of IFRS though they have serious concerns about the cost and benefits associated with IFRS. The respondents agreed that preparation of financial statements on IFRSs would lead to greater access to capital market, transparency, improved quality and harmonization of accounting standards. However adequate training and cost of preparation of two sets of financial statements remain a cause of concern.

Implementations of IFRS possess serious challenges for regulators as well as envisaged in a study conducted by Hussey and Ong (2006) in Taiwan on eight Taiwanese regulators using Repertory Grid Technique revealed the perception of regulators. The regulators were concerned about safeguarding the traditional values and to enact an efficient reporting system. Taiwanese regulators feel that they were entrusted with dual responsibilities, to act as advocates of convergence and to adopt a sound and stable reporting system.

Implementation of IFRS was expected to bring the significant differences on the accounting ratios of the companies as evidenced in an empirical research focusing on the effects of IFRS on the comparability and relevance of financial information of 35 Spanish companies. Significant difference was found between accounting figures and ratios under Spanish standards and IFRS. Interestingly Callao, Jarne and Lainez (2007) in their study concluded that implementation of IFRS does not add value for stock market participants as it increases the gap between book value and market value of accounting items.

Apart from the complexities, costs and benefits associated with the adoption of IFRS, cultural factors have an equivalent impact on the adaptability of IFRS. Culture largely impacts the accounting practices, as pointed out in a study on Greek companies by Ballas, Skoutela and Tzovas (2010). Greek people have a strong element of individualism and state regulation resulting in preference of rules over principles and economic substance. They also mention that the cultural factors in Greece impacted the transparency of financial statements. A similar type of study conducted by Porta, Lopez-de-Silanes, Shleifer and Vishny (1998) indicated that Spain and other countries in the "French code law family", prepared financial statements giving less importance to transparency and disclosures. They were not used to such practices as tradition and enforcement is weak in Spain. Findings were further confirmed by a study in Russia by Combs, Samy and Myachina (2013). The study concluded that Russian accountants have a positive attitude towards financial reporting under new harmonized accounting standards but they do not consider financial reporting as a tool of communication with outsiders. Russian accountants were found to be reluctant in disclosing financial information to external users. Findings of this research clearly indicate preference for secrecy as against transparency.

IFRS is considered as the global accounting language, hence increasing the need of IFRS education and training. An empirical study conducted by Patro et al (2012) on Indian Management Students to assess the level of awareness and acceptability of IFRS, with a sample size of 90 geographically diversified students. One of the important findings of this research is the existence of positive correlation about the usability of IFRS and the intention to undergo IFRS training. Students were found to be more keen to learn IFRS if it leads to more employment acceptability globally.

Implementation of IFRS will provide greater visibility and transparency to financial statements of companies. Earnings management practices have decreased in the countries that have adopted IFRS. Cai, Rahman and Courtenay (2008) as concluded in a study to understand the impact of IFRS on earnings management practices. The author analyzed 1,00,000 firm-year observations from 2002 to 2006 across 32 countries. A regression model study by Lasmin (2012) which examined the effects of IFRS adoption on international trade and Foreign Direct Inflows (FDI) in developing countries revealed that countries adopting IFRS are not likely to experience higher FDI inflows and international trade.

Pajunen and Saastamoinen (2013) examined the auditor's perception to ascertain that whether they believe that goodwill accounting enables earnings management opportunities. The 2011 study was based on the sample of 123 Finnish certified auditors. Data was subject to explorative factor analysis and probit regression. The study concluded that the auditors have two different perspectives. Some auditors believe that the earning management opportunities exists under IFRS goodwill accounting while others do not believe it and are favorable towards new valuation methods in goodwill accounting. As per the study the auditors are not unanimous on the earning management issue in goodwill accounting. Lack of favourableness may be because of lack of experience of the auditors studied. It is relavant to point out that the Big 4 Finnish auditors believe that goodwill accounting rules can be applied carefully in IFRS without scope for earnings management. Therefore it can be said that it is important to study the view point of accounting experts based on the number of years of experience.

As evident from literature review that implementation, adoption and acceptability of IFRS differs from country to country. Culture, age, education etc. has a strong impact on the acceptability of International Financial Reporting Standards. The viewpoint of accounting experts regarding the opportunities and challenges associated with the implementation of IFRS has not been researched in India. Though India is prepared with the IndAS, the Indian version of IFRS still India has not adopted IFRS. The adoption has further been shifted to April 2016 (icai.org). Owing to the situation it is necessary to study the perception of accounting experts as they are the real drivers of IFRS adaption.

RESEARCH OBJECTIVES

The principal objective of this study is to identify the perception of accounting experts regarding the benefits and challenges of IFRS implementation in India. This paper makes an attempt to study the perception of accounting experts towards the benefits and challenges of implementation of IFRS based on their age, educational qualification, occupation and number of years of experience.

METHODOLOGY

The study is related to the perception of respondents for the implementation and adoption of International Financial Reporting Standards, therefore the target population was taken as the community of accounting experts. The term accounting experts includes those respondents having knowledge about International Financial Reporting Standards and the existing Indian Accounting Standards. For the purpose or research the target population of accounting experts was divided into four categories:

- Auditors
- Accounting professionals working in companies
- Academicians
- Others (pursuing professional qualification)

Primary data was collected through a questionnaire (Annexure 1). A close ended questionnaire was designed after review of recent literature. The questions were designed using five point Likert Scales, so that the individual's knowledge and perceptions of IFRS could easily be determined. Respondents were required to rate the extent to which they agreed or disagreed with these statements based on the five point rating scale. The questionnaire was floated electronically. It was sent to around 200 accounting experts through mail. The questionnaire survey was conducted between September 2013 and January 2014. Repeated reminders were also sent to respondents. Fifty five responses were received before the cutoff date. The sample size and the responses in each of the sub category are illustrated in Table 1.

Table 1: Sample Size and Response Rate per Accountant Sub-Group

Sub Group	**Questionnaires**		**Rate**
	Sent	**Returned**	**Response Rate**
Auditors	50	18	36%
Academician	50	16	32%
Accounting Professionals in companies	50	10	20%
Others	50	11	22%
Total	**200**	**55**	**27.5%**

Table 1 above indicates that the total of 200 questionnaires were distributed, 50 to each of the subcategory. Response rate from each of the subcategory has been indicated in Table 3. The overall response rate for all of the subgroups is 27.5%. Based on the literature survey[1,16] it has been ascertained that the response rate varies between 20%-30% in accounting research.

RESULT AND ANALYSIS

The analysis of collected data and the findings are presented in two parts. The first part represents the descriptive analysis of the findings of the research and the empirical analysis using non-parametric statistical tests Kruskal-Wallis test. This is used to test the equality of more than two population means while dealing with the ordinal data and when the sample size is very small. Data used for the purpose of descriptive and empirical analyses consists of the responses received. To be conservative this study uses Kruskal-Wallis test.

DESCRIPTIVE ANALYSIS

Demographic profiles of the respondents are shown in Tables 2, 3, 4 and 5. Demographic profile consists of the age, educational qualification, occupation and number of years of experience of the accounting experts. It has been observed that around 40% of the respondents are in the age group of 21-30 years and 31-40 years with more than 50% of the respondents are with professional qualification. In addition around 30% of the respondents are the auditors and academicians and having the experience of more than 10 years, indicating they are likely to be actively involved and well aware of the current development in the accounting.

Table 2: Age of the Respondents

21-30 years	21	38.2%
31-40 years	25	45.5%
41 and above	9	16.3%
	55	

Table 3: Educational Qualification of the Respondents

Doctorate	10	18.20%
Professional	30	54.5%
Others	15	27.30%
	55	

Table 4: Occupation of the Respondents

Auditor	18	32.7%
Academician	16	29.1%
accounting professionals in company	10	18.20%
Others*	11	20%
	55	

**Students pursuing professional qualifications*

Table 5: Number of years of Experience of the Respondents

0-5 years	19	34.5%
5-10 years	14	25.5%
10 years and above	22	40.0%
	55	

A test for internal reliability is presented in Table No 6. The scores of Cronbach's alpha range between 0.683 to 0.836 for each item and all items indicate a satisfactory level of consistency. Coefficient value of generally 0.6 or more indicates satisfactory level of internal consistency as per Malhotra and Dash (2008).

Table 6: Reliability Statistics (Cronbach's Alpha test)

Items	Cronbach's Alpha	Cronbach's Alpha based on standardized items	No. of items
Opportunities	0.836	0.841	10
Challenges	0.683	0.693	10
All	0.748	0.761	20

Table no 7 illustrates the perception of the respondents upon the opportunities associated with the implementation of IFRS. Those who responded with 4 (agree) and 5 (strongly agree) are considered to be in agreement with the respective statements. Table 7 shows percentage of respondents who agree with positive statements about IFRS. A majority of the respondents agreed that IFRS possesses many advantages like transparency, comparability, professional opportunities etc. Respondents have disagreed to the fact that implementation of IFRS will lower the cost of capital as only 20% of the respondents have agreed to the same.

Table 7: Perception on the Opportunities of IFRS

Survey Question	Respondents Agreeing (percentage)
IFRS are appropriate for achieving the true & fair view of the financial statements.	80.0
Implementation of IFRS will increase the transparency of financial statements.	96.9
Implementation of IFRS will increase the international comparability of financial statements.	96.3
Implementation of IFRS will bring in more opportunities for accessing the global market for Indian Companies.	83.7
Implementation of IFRS will increase the understandability of financial statements.	76.4
Implementation of IFRS will increase the relevance of accounting information for decision making.	81.8

Implementation of IFRS will lower the cost of capital.	20.0
Implementation of IFRS will assure the greater accessibility to funds for Indian Companies.	65.4
Implementation of IFRS will increase the cross border listings.	81.8
Implementation of IFRS will provide the professional opportunities to Indian professionals across the globe.	90.9

Table 8 illustrates the perception of the respondents upon the challenges associated with the implementation of IFRS. The percentage of respondents agreeing as shown in Table No 8 was computed from the rating 4 (agree) and rating 5 (strongly agree) on a 5 point Likert scale. The responses regarding the challenges associated with the implementation of IFRS are very diverse. Complications of IFRS, training of staff, changes in accounting process, changes in Information Technology infrastructure and the changes in the existing laws are concern area for the accounting fraternity.

Table 8: Perception on the Challenges of IFRS

Survey Question	Respondent Agreeing
Complicated	**52.8**
Cannot be accepted as global standards	21.9
Requires training for staff	92.7
Requires changes in accounting process	74.5
Requires changes in IT infrastructure	52.8
Will increase volatility in earnings	27.3
Requires too much disclosure	30.9
Fair value concept is difficult to apply	40
Entails huge cost for training of staff	**63.7**
Requires major changes in existing laws	**70.9**

EMPIRICAL ANALYSIS

Empirical Analysis has been done using the statistical technique Kruskal Wallis Test. This technique could be used to test the equality of more than two population means when the sample size is small.

Table No. 9 shows the statistical results for the previously stated research objectives that the perception of accounting experts towards the benefits and challenges of implementation of IFRS is dependent on their age, educational qualification, occupation and number of years of experience.

Table 9: Empirical Results (P Value) 95 confidence level

	Age	Education	Occupation	Experience
Opportunities	0.228	0.079	0.282	0.087
Challenges	0.915	0.812	0.281	0.256

The p value in all the above cases is greater than 0.05, the level of significance. This means that the perception of the accounting experts towards the opportunities and challenges associated with the implementation of IFRS is independent of their age, educational qualification, occupation and number of years of experience. It can be further be interpreted with the results of descriptive analysis and empirical analysis that the difference in perception towards the implementation of IFRS can be attributed to the factors other than age, education, occupation and experience.

CONCLUSION

The study examined the opportunities and challenges associated with the implementation of IFRS in India. From descriptive and empirical analysis it can be concluded that accounting experts are optimistic towards the benefits associated with the implementation of IFRS while at the same time they are concerned with the significant costs and challenges associated with the implementation of IFRS. Complicated IFRS, inadequate training of staff, changes required in the accounting process, information technology infrastructure and existing laws contributes as the major challenges upon IFRS implementation. The result is consistent with the research in this area. Empirical results clearly indicate that the perception of the accounting experts is independent of their age, educational qualification, occupation and number of years of experience.

To cope with the challenges associated with the implementation of IFRS it is necessary to align the existing Indian laws with the IFRS. Moreover the study has highlighted the need of trained professionals as 92.7 of respondents agrees to the fact that IFRS implementation requires trained staff. The research findings are subject to the limitations of any survey study. There is a possibility that some respondent may bias responses owing various types of professional and peer pressures. Results should be interpreted with caution owing to the small sample size.

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Annexure 1

Respondents Profile						
1	Name of the Respondent					
2	Name of the present organization:					
3	Age of the respondent	21-30 years	31-40 years	41-50 years	51-60 years	60 years and above
4	Educational Qualification	Bachelor	Masters	Doctorate	Professional	Any other
5	Occupation of the respondent	Auditor	Academician	Investor	Accounting professionals in company	Others
6	Number of years of experience	0-5 years	5-10 years	10-20 years	20-30 years	30 years or more
7	Are you aware with the International Financial Reporting Standards (IFRS).			Yes	No	
8	Are you aware with the key differences between IFRS and existing Indian Accounting Standards.			Yes	No	
1:-Strongly disagree,2:-Disagree,3:-Neutral,4:-Agree & 5:-Strongly Agree						
Advantages						
9	IFRS are appropriate for achieving the true & fair view of the financial statements.					
10	Implementation of IFRS will increase the transparency of financial statements.					

11	Implementation of IFRS will increase the international comparability of financial statements.					
12	Implementation of IFRS will bring in more opportunities for accessing the global market for Indian Companies .					
13	Implementation of IFRS will increase increase the understandability of financial statements.					
14	Implementation of IFRS will increase the relevance of accounting information for decision making.					
15	Implementation of IFRS will lower the cost of capital.					
16	Implementation of IFRS will assure the greater accessibility to funds for Indian Companies.					
17	Implementation of IFRS will increase the cross border listings.					
18	Implementation of IFRS will provide the professional opportunities to Indian professionals across the globe.					
19	IFRS are complicated in comparison to existing Indian Accounting Standards.					
20	IFRS cannot be accepted as global standards as they have not been implemented across the globe.					
21	IFRS requires training for staff owing to its complexities.					
22	IFRS requires changes in the accounting process.					

23	IFRS requires significant changes in the Information Technology infrastructure.					
24	Implementation of IFRS will increase the volatility in company's earnings.					
25	Implementation of IFRS will require too much disclosure of financial information which is troublesome.					
26	IFRS recommends the application of fair value concept which is generally difficult to apply.					
27	Implementation of IFRS will entail the huge cost in terms of training of staff.					
28	Implementation of IFRS will require the major changes in various existing laws.					