Benefits of Mandatory IFRS Adoption in India: A Study Based on the Perception of Indian Investors

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Abstract
The importance of international accounting practice studies has grown over the past few years in order to meet economic agent demands and to facilitate international business practices. With the growing economy and increasing integration among the global economies, Indian companies are also raising their capital globally due to diversification, cross-border mergers, investments or divestments.The motivation of this paper is to find out the benefits of mandatory IFRS adoption in India. A primary survey has been done to collect the investor's opinion about the benefits of IFRS adoption and apply different statistical technique to find out the statistical significance.

Keyword: *IFRS, IGAAP, Benefits, Investors, Statistical Technique*

1. Introduction

Since the advent of internet, the world has shrunk, distances have lost their importance and information has no more remained the differentiating factor. In this global arena one of the foremost requirements to operate a business successfully, is to have a good financial reporting system. If we believe in the old saying, "Accounting is the language of business," then the business enterprises around the globe should be speaking in same languages to each other while exchanging and sharing financial results of their international Business activities.

With the growing economy and increasing integration among the global economies, Indian companies are also raising their capital globally due to diversification, cross-border mergers, investments or divestments. At this point, it is the need of the hour to have globally set standards in all domains to avoid discrepancies and conflicts across boundaries and have a well-defined, structured policy framework throughout. International Financial Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.

In the year of 2014, Indian Ministry of Finance, ArunJaitley has proposed in his budget speech that from 2016-17, Indian companies have to apply new Accounting Standard (Ind-AS), which is substantially converged with International Accounting Standard, with voluntary adoption, permitted from a year earlier.

When a rule is mandatory, there is no other option but to accept it. But the question is what type of benefits Investors will get. There is no substantial evidence. On the basis of this question, in this paper, the researcher tries to find out the possible benefits of mandatory IFRS adoption from investors point of view.

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2. Literature Review

The following is a summary of research studies at international context under different part of section. There are mainly four streams of IFRS literature:

- First line of research examines the impact of IFRS on Financial components.
- Second way of research investigates the impact of IFRS on the earning quality of the organization.
- Third stream of research examines the challenges and benefits of IFRS adaptation.
- Fourth line of research investigates the conservativeness of IFRS and local standard for defining the profit and equity position of the companies.

Impact of IFRS on financial components

Aga &Akta (2007) have done a research on first time adaptation of IFRS and its effect on financial ratio of Turkish listed firm. They have considered 147 firm and obtained data from their financial statement and applied pair t-test proving hypothesis. They have found that only the change in cash ratio and Assets Turnover Ratio are statistically significant, on the other hand Inventory Turnover Ratio and total liability ratio are not statistically significant for the entire sample. Callao et.al (2007) has done a research on effect of IFRS adaptation on the comparability and relevancy of financial reporting in 35 Spanish firms. They have implemented t-test and Wilcoxon signed-rank test for proving hypothesis.They unveil IFRS have a significant impact on six financial ratios and interim information of the Companies. Fulbier et.al (2009) unveils the effect of IFRS on 90 companies in Germany. The goal of this research is to find out the effect of accounting treatments for operating lease on financial statement position and key financial ratio. The conclusion of their paper is that material capitalization significantly impact on most of the companies, especially fashion and retail industry and the entire ratios. Lantto & Sahlstrom (2009) have conducted a study on the impact of IFRS adaptation on key financial ratio in Finland. They have analyzed the financial figures of 91 firms and found that most of the financial statements items differ significantly. The result shows that operating profit margin, return on equity, return on invested capital and gearing ratios have increased and P/E ratio, equity ratio and liquidity ratios are significantly decreased after adopting IFRS. Tsalavoutas& Evans (2010) have conducted a study on 238 listed Greek companies from 2005 and 2006.The motive of the study is to find out the impact of the transition to IFRS on financial statement. They have calculated ratios and considered some absolute financial number. They found that IFRS adaptation have a significant impact on companies financial position especially on gearing and liquidity ratios. Markelevich et.al (2010) has conducted a research on the impact of conversion from national accounting standard to IFRS in Israel. They have considered 536 organizations from different industry in Israel and calculated different type of ratios to find out the impact. They concluded that conversion of accounting standard made a significant impact on real estate sector. Beke (2011) has conducted a study on IFRS adaptation on 65 IFRS adopted firm and 260 local firms on Hungarian market. The motive of the study is to measure the difference between local rule and international standard. For that he has applied logistic regression model on different ratios. The result shows that IFRS adaptation had a significant impact on earnings ratio, solvency ratios and profitability ratios and the new standard make the financial statement more transparent and user friendly. Ahmed &Alam (2012) has done a research on the effect of IFRS adaptation on financial statement in Australia. The objective of this paper is to analyze the changes in accounting surplus, equity, Assets and Liabilities. They found some difference between two sets of accounting standard, Average surplus or loss has decreased, equity assets and liabilities have increased. But no major changes on overall financial position have found. Shi-hsingWeu (2012) has conducted a research on the impact of IFRS convergence on effectiveness of accounting information for share valuation in China. He found that IFRS convergence increase the value of Balance sheet items and enlarge variation across firm. But there is no difference in the expletory power of value relevance of accounting information in China. SilvaMacedo et.al (2013) has made an investigation to find out the impact of convergence to IFRS on the informational content of accounting in Brazil. They have calculated different ratio and employed K-S test for testing normality and wilcoxon sign test for testing the hypothesis. The result indicates that Assets turnover, Gross margin, Operating cash flow over total assets and Operating cash flow over stock holder equity are lower when using the data from the IFRS based financial statement. On the other hand Book value per share and EPS, the explanatory power of these ratios has been increased. Sovbetov (2013) disclosed that how IFRS impact on key financial ratios in UK market. In this study he has selected some area like profitability, efficiency & liquidity, capital structure and inventory. He applied regression equation on these nine ratios. He considered these ratios as dependent variables and total assets, market capitalization, stock and trade value and a dummy variable as independent variables. He observed that IFRS have significant impact only on ROA, PM ratio and no evidence of any impact on other seven. Ibiamke et.al (2014) has conducted a research on the effect of IFRS on financial ratios in Nigeria. They have used pair t-test for testing hypothesis and regression analysis to define the relationship between IFRS and local GAAP. Through t-test,they conclude that IFRS adaptation did not have any impact on profitability liquidity and market ratio. Jindrichovska & Kubickova (2014) have tried to find out the impact of IFRS on key financial ratio on Czech Republic. They have used t-test on mean differences and found that IFRS bring the changes on all the indicator of the financial situation of Companies. The change of examined indicator was both in positive and negative direction.

Impact of IFRS on the earning quality of the organization

Goncharov& Zimmermann (2007) have conducted a research on the effect of IFRS on earning quality in Germany. They found that earning management does not decrease under IFRS compare US GAAP.Jeanjean & Stolowy (2008) have done a research on IFRS adaptation and its effect on earning management. They have selected 1100 firms in three countries (Australia, France and U.K), they define the quality of financial report as a reduction of earning management and it's assess as the frequency of small profit compared to small loss. Through regression, they found that earning management remained same in Australia and United Kingdom after IFRS adaptation. However in France it appeared to increase. But overall conclusion of their paper was that earning quality was not improved by adopting IFRS. Major& Marques (2009) have done a research on effect of IFRS adaptation on corporate governance and financial performance of 80 listed Portuguese firms. He has followed the equation and considers the items of the equation prescribed by Portuguese securities Market commission. These are ROA as dependent variable and size, list, equity; total assets to equity are independent variables. Observation includes data in two accounting regimes; before and after adaptation of IFRS. They found that Co efficient for IFRS is not statistically significant, means level of compliance with the recommendation was still low. Houqe & Zijl (2010) have conducted a research on the effect of IFRS adaptation and investors protection on earning quality around the world. They have selected 46 countries around the globe. They found that earning quality has been increased by mandatory IFRS adaptation and this led to stronger protection to the investors. Ton (2011) has conducted a study on the effect of IFRS on earning management on Dutch listed Companies. He has used Modified Jones Model on 75 Dutch companies. They have not get enough evidence that IFRS is associated with a lower level of earning management also there is no difference between small and large companies on this point of view. Cain et.al (2011) unveils the effect of fair value measurement on accounting comparability in the U.K and Australia through IFRS. They have employed T index and found that comparability increase only for accounting area where IFRS requires fair value measurement. Rudra & Bhattacharjee (2012) have tried to find out how IFRS influence on earning management. In this research they have measured the opportunistic earning through Discretionary accrual and formulate a cross regression model. They conclude that high quality accounting standard does not lead to high quality reported information all time. It can true for some cases but not all cases. Manzano& Conesa (2014) have conducted a research on the impact of IFRS adaptation on earning management at Mexican companies. He has applied the upper version of comparability index, called convergence index, then formulate a equation where firm size, growth ,CFO, Assets, debt consider as a control variable of accounting conservativeness. They have also used Modified Jones Model (1991) to estimate the non-discretionary component of total accrual. The result of this study suggests that convergence of accounting standard have increased comparability of accounting earning.

Challenges and benefits of IFRS adaptation

Ball (2005) has identified some key benefits behind the implementation of IFRS. He summarizes the factors as accuracy, Comprehensive and timely financial reporting, Reduce international barrier and fair value based accounting. Irvine &Lucas (2006) revile the impact of IFRS adaptation on United Arab Emirates. Through this descriptive study they have identified some points which are affected by IFRS adaptation. These are international trade, capital market, Big 4 international accounting firm. In this research they have outlined some challenges for implementing IFRS in developing countries like U.A.E. Gyasi (2009) have conducted a study on the topic of adaptation of IFRS in developing countries: The case of Ghana. He has identified several factors which are affecting the process of IFRS adaptation. These are Economic growth, Legal system, External environment, capital market, ineffectiveness of previous accounting standard etc. He conducted a survey on different companies in Ghana and then quantifies the opinion which helps to find out these factors. Apurva Chauhan (2013) conducted a research on IFRS convergence and its impact based on Wipro limited. She also identified some challenging factors for this convergence process in India. These are, training and education, Legal & regulatory consideration, taxation aspect and fair value measurement etc.

Conservativeness of IFRS and local standard for defining the profit and equity position of the companies

Tsalavoutas (2005) have done a research on the impact of IFRS and its effect of financial statement on Grease companies. He has employed Gray Index, one of the techniques to assess the impact on 12 different industries. He found that average changes of three sectors fall in the materiality band (5%-10%).These are retail, technology and food and beverage. The remaining sectors appear to have material effect for defining net income. Bertani& Rosa (2006) have conducted a research on Italian companies to know the conservativeness of the Italian Companies. They have applied Gray Index on reporting income and return on equity. They found that Italian GAAP is more conservative than IFRS. Patricia &Rui (2008) have done a research on the effect of IFRS on Portuguese companies. They have employed Gray Conservative Index. They classified the value from highly conservative (<.50) to less conservative (0.50).Then again classified it as per pessimistic, neutral and optimistic. They conclude with the result that 49% of the companies are pessimistic, 20% are neutral and 31% are optimistic for reporting profit. Punda (2011) conducted a research on impact of IFRS in U.K market by using Gray Conservative Index to measure the conservativeness of profit reporting and equity discloser. As per his paper, if the index value is less than 1,it indicates IFRS is less conservative and vice-visa. The result shows that, for reporting profit and disclosing equity, IFRS is less conservative compare to U.K GAAP. Dani Foo et.al (2012) conducted a study to find out the effect of convergence of IFRS in China. They have employed Gray conservative index to find out the difference. They have calculated Index of net earnings and equity for each company every year. They suggest that if the value of index varies in between .90 to 1.10,the local standard and IFRS are relatively equivalent for defining net income and net equity. They found net earning does not exceed 10% from 2002 to 2009 and for net equity also. Braun (2014) has done a research to find out the difference between local standard and IFRS on 42 countries around the world through Gray Index. He found that IFRS is more transparent and less conservative compare to local GAAP. Ibiamke et.al (2014) has conducted a research on the effect of IFRS on financial ratios in Nigeria. They have used pair t-test and Gray index to define the conservativeness between IFRS and local GAAP. Through Gray Index, they conclude that IFRS adaptation led to decrease in profitability liquidity and market ratio. George (2015)has conducted a study to examine the impact of IFRS for European and non-European countries. He has selected mainly four countries i.e., Germany, France, South Africa & Israel. By adopting Gray Index, He found that unlike Israel, European and South African companies experienced a positive change in equity and earning.

3. Objectives

The review of literature disclosed that where a country changed her accounting language from local standard to IFRS, the financial indicators as well as qualitative factors are also changed and generates several benefits to the users (Investors) of financial statement. So, on the basis of this concept, the objective of this study is to analyze the beneficial factors of mandatory IFRS adoption in India from investor's point of view.

4. Research Methodology & Hypothesis Development

Sample Design

To know the impact of mandatory adoption of IFRS and to study the perception regarding the benefits of IFRS adoption among the Investors in India, Share broking firm's official have been selected because they are the representatives of the investors.

Sample Size

To accomplish the objective, the researcher gathered the data from the official of the leading share broking firm. In that case, total sample size is Ninety one (91).

Data Analysis Technique: For analyzing the impact of mandatory adoption of IFRS on financial reporting quality and benefits of IFRS adoption, one sample t test and Chi-Square test has been applied.

Hypothesis

Hypotheses I

Ho: IFRS adoption will not increase Indian investors understanding of financial reports.
H_1: IFRS adoption will increase Indian investors understanding of financial reports.

Hypotheses II

Ho: IFRS adoption will not provide a better base to investors for taking decision.
H_1: IFRS adoption will provide a better base to investors for taking decision.

Hypotheses III

Ho: IFRS adoption will not make comparison of financial reports easier for the investors.
H1: IFRS adoption will make comparison of financial reports easier for the investors.

5. Data Analysis and Interpretation

When a country adopts a new accounting standard, it will affect not only the financial reporting factors but also influence the investment decision of the investors. As per the survey of PWC 2006, adoption of IFRS has influenced the investment decisions of more than half of fund managers in Europe. To study the perception of the investors regarding the benefits of IFRS adoption in India, a separate questionnaire, developed by literature review, were issued to the listed stock broking firms in India. Because they are the representative of the major investors to help them for making investment decisions (**Iyiola & Ajike, 2016**).

Reliability Statistics	
Cronbach's Alpha	N of Items
.652	8

During this survey, a total of 125 copies of questionnaire were distributed, 25 copies of questionnaire each to the 5 top share broking companies (**Business Map of India, 2015**), out of which 92 were returned. So the response rate is 73.60%. The Cronbach's alpha in this study was **0.652** (higher than 0.6), the constructs were therefore deemed to have adequate reliability.

Table 1: Determination of Final Sample

Company Name	No. of Questionnaire Sent	No. of Questionnaire Returned	Completely filled	Not aware
India bulls Securities	25	17	15	2
Share khan Limited	25	22	19	3
Angel Broking Limited	25	19	18	1
Reliance Money	25	16	14	2
Kotak Securities Limited	25	18	15	3
Total	125	92	81	11

The above table shows that, Out of 125, 92 respondents agreed to fill up the questionnaire. Out of this 81 (88.04%) filled the questionnaire completely and 11 respondents could not reply when they were asked whether they were aware about IFRS convergence in India. The lack of awareness level is 11.06%. So the final sample in this regards is 81.

Table 2: Descriptive statistics of beneficial factors

Sr. No.	Statements	mean	Standard Deviation	S-W test
1	New standard provides a better base to investors for taking decision	3.34	1.15	0.891
2	IFRS attract more foreign Investors	3.61	1.10	0.866
3	After IFRS adoption merger and acquisition are more easy	3.41	1.16	0.881
4	IFRS convergence will support the growth of Indian Companies	2.60	1.27	0.874
5	IFRS makes comparison of financial reports easier for the investors	3.38	1.09	0.905
6	IFRS based financial report helps to reduce cost of capital	2.85	1.13	0.914
7	IFRS based financial statement is more transparent	3.40	1.04	0.893
8	IFRS based financial statement is more understandable and easy to compare	3.39	1.02	0.896
9.	IFRS is significant for financial reporting development	3.43	0.906	0.872

The above descriptive statistics shows the values of mean, standard deviation for all the factors and S-W test applied to test the normality of the data. The questions required the respondents to answer on a five-point Likert-scale. On this scale, a score of 5 or 4 indicates that the respondent is agreeing on that statement while a score of 2 or 1 indicates that the respondent is not agreeing to the same. Whereas 3 indicates Neutrality of the statement .The Mean value for all the variables are more than 3 except two, Reduction of cost of capital (2.85) and support growth of the company (2.60).The S-W test value for all the variables is more than 0.05,which means data are normally distributed. As per the results of the above statistics, some experts were visited and their opinions were enlisted. According to C.A. B. Joshi and CMA Rakesh Mishra, cost of capital and growth of the company is keener on managerial aspects rather than accounting and it is heavily linked with the market and economy of the country. So rule of accounting standard might be a less influencing factor for determining cost of capital and growth of the company

Hypothesis IV V and VI were tested by using Chi – Square followed by one sample t-test towards right. An alpha (α) level of 5% is assumed. Table 4 below shows a summary of the chi- square test results.

Table 3: Test Statistics

	Better base	Comparable	Understandable
Chi-Square	19.679[a]	20.667[a]	26.346[a]
Df.	4	4	4
Asymp. Sig.	.001	.000	.000
a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 16.2.			

Table 4: Results of Chi-Square testing

Hypothesis	Degrees of freedom	Critical Value Of χ2	Calculated Value OF χ2	Alpha(α) Level
IV	4	9.488	19.679	0.05
V	4	9.488	20.667	0.05
VI	4	9.488	26.346	0.05

Hypothesis testing

Hypothesis I

From the computation the calculated value of χ2 is 26.346. The critical or table value at an alpha(α) level of 0.05 and 4 degree of freedom is 9.488. Since the calculated value is greater than the table value and the p value is less than0.05, it suggests that investors have not given equal weightage to all the factors on Likert scale or there is a difference among investors opinion on this specific issue. To prove this, one sample t-test towards right has been applied against the hypothesized mean,3.

Table 5: Results of Hypothesis testing

One-Sample Test						
	Test Value = 3					
	T	Df.	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Understandable	3.483	80	.001	.39506	.1694	.6208

The above result shows that p-value is less than 0.05, it indicates H_0 get reject. Therefore, it is concluded that Adoption of IFRS has increased Indian investors understanding of financial reports.

Hypothesis II:

From the above computation the calculated value of χ2 is 19.679. The critical or table value at an alpha(α) level of 0.05 and 4 degree of freedom is 9.488. Since the calculated value is greater than the table value and the p value is less than0.05, it suggests that investors have not given equal weightage to all the options on Likert scale or there is a difference among investors opinion on this specific issue. To prove this, one sample t-test towards right has been applied against the hypothesized mean, 3.

Table 6: Results of Hypothesis testing

One-Sample Test						
	Test Value = 3					
	t	Df.	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Better base	2.699	80	.008	.34568	.0908	.6006

The above result shows that p-value is less than 0.05, it indicates H_0 get reject. Therefore, it is concluded that Adoption of IFRS provides a better base to investors for taking decision.

Hypothesis III:From the computation the calculated value of X2 is 20.667. The critical or table value at an alpha(α) level of 0.05 and 4 degree of freedom is 9.488. Since the calculated value is greater than the table value and the p value is less than0.05, it suggests that investors have not given equal weightage to all the factors on Likert scale or there is a difference among investors opinion on this specific issue. To prove this, one sample t test towards right have been applied against the hypothesized mean, 3.

Table 7: Results of Hypothesis testing

One-Sample Test						
	Test Value = 3					
	t	Df.	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Comparable	3.159	80	.002	.38272	.1416	.6238

The above result shows that p-value is less than 0.05,it indicates H_0 get reject. Therefore, it is concluded that IFRS make comparison of financial reports easier for the investors.

6. Conclusion

The above analysis shows, for beneficial factors, the representative of the investors agreed that IFRS brings several benefits for the investors for their investing purpose. This research would help the policy makers in formulating more appropriate rules and regulations towards IFRS harmonization in India.

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