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BENEFITS OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN INDIA – A STUDY

Dr.V.Balamurugan *   Dr.Umashankar*
**Assistant Professors of Accounting and Finance College of Business Economics, Dilla University, Ethiopia.*

Abstract
Globalization of accounting standards under the lead of International Financial Reporting Standards (IFRS) is becoming trend among countries because of the advantages it provides for countries and multinational companies. According to the proponents of accounting harmonization, worldwide comparability of financial statement is necessary for the globalization of capital markets. It would be easy for investors to evaluate potential investments in foreign securities and it would also simplify multinational companies" evaluation of possible foreign takeover targets. IFRS adoption is referred to as harmonization of international accounting standards in to the practice of the local accounting standard.

Keywords: Adoption, International Financial Reporting Standards (IFRS), India.

Introduction

India has in recent years experienced strong economic growth, rising foreign exchange reserves, falling inflation, global recognition of its technological competence, and the interest shown by many developed countries to invest in the engineers and scientists produced in the country including setting up of new Research and Development centers. India's technological competence and value systems are highly respected. In India, accounting standards are issued by the Institute of Chartered Accountants of India based on IFRSs. Departures from the IFRS are made keeping in view the prevailing legal position and customs and usages in the country. IFRS stands for International Financial Reporting Standards and they are standards for reporting financial results and are applicable to general purpose financial statements and other financial reporting of all profit oriented entities. The term IFRS comprises IFRS issued by IASB; IAS issued by IASC; and interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee. *A series of accounting pronouncements published by the International Accounting Standards Board (IASB) to help preparers of financial statements, throughout the world, produce and present high quality, transparent and comparable financial information.* Since 2001 International Financial Reporting Standards (IFRS) are being developed and approved by the International Accounting Standards Board (IASB). The IASB is a stand-alone, privately funded accounting standard setting body established to develop global standards for financial reporting. It is the successor to the International Accounting Standards Committee (IASC), which was created in 1973 to develop International Accounting Standards (IAS). Based in London the IASB assumed accounting standard setting responsibilities from the IASC in 2001. Instead, the application of IFRS requires exercise of judgment by the preparer and the auditor in applying principles of accounting on the basis of the economic substance of transactions. The IASB framework establishes a general requirement to account for transactions in accordance with their substance, rather than only their legal form. This principle comes through very vividly in many IFRS. The ISAB intends not to permit choices in accounting treatment, as its objective is to require like transactions and events to be accounted for and reported in a like way, and unlike transactions and events to be accounted for differently. According to IASB (2009), the IASB achieves its objectives primarily by developing and publishing IFRS and promoting the use of those standards in general purpose financial statements and other financial reporting. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users" ability to make efficient economic decisions. The term "financial reporting" encompasses general purpose financial statements plus other financial reporting. FRS set out recognition, measurement, presentation and disclosure requirements dealing with transactions and other events and conditions that are important in general purpose financial statements. They may also set out such requirements for transactions, events and conditions that arise mainly in specific industries. IFRS are based on the Framework, which addresses the concepts underlying the information presented in general purpose financial statements. The objective of the Framework is to facilitate the consistent and logical formulation of IFRS. It also provides a basis for the use of judgment in resolving accounting issues (IASB, 2009).

The Process of adoption of IFRS in India

The Institute of Chartered Accountants of India (ICAI) set up the Accounting Standards Board (ASB) in 1977 to prepare accounting standards. In 1982, ICAI set up the Auditing and Assurance Standards Board (initially known as the Auditing Practice Committee) to prepare auditing standards. ICAI became one of the associate members of the International Accounting Standards Committee (IASC) in June 1973. The ICAI also became a member of the International Federation of Accountants (IFAC) since its inception in October 1977. While formulating accounting standards in India, the ASB

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considers International Financial Reporting Standards (IFRS) and tries to integrate them, to the extent possible, in the light of the laws, customs, practices and business environment prevailing in India. The Accounting Standards Board has worked hard to introduce an overall qualitative improvement in the financial reporting in the country by formulating accounting standards to be followed in the preparation and presentation of financial statements. So far, the Board has issued 29 Accounting Standards. Besides this, it has also issued various accounting standards interpretations and announcements, so as to ensure uniform application of accounting standards and to provide guidance on the issues concerning the implementation of accounting standards which may be of general relevance. Appendix A contains a Comparative Statement of International Accounting Standards/International Financial Reporting Standards and Indian Accounting Standards.

ICAI generally deviates from the corresponding IAS/IFRS because of the following factors namely Legal and regulatory environment prevailing in the country; Alternatives permitted in IFRSs would lead to incomparable financial information; Economic environment within the country; and Level of preparedness of industry.

ICAI endeavours to bridge the gap between Indian accounting standards and International Financial Reporting Standards by issuing new accounting standards and ensuring that existing Indian accounting standards reflect any changes in international thinking on various accounting issues. In this regard, it should be noted that ICAI is making a conscious effort to bring the Indian accounting standards into line with International Financial Reporting Standards by revising existing accounting standards. ICAI has so far issued 29 Indian accounting standards corresponding to IFRSs.

Significance of the Study
The study would have many advantages for all practitioners and academicians by providing useful information about International Financial Reporting Standards and issues related to its adoption. It will be also very important for academic purpose by providing information in regard to statement of the problem. The study could also be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the adoption of IFRS in India. And it would enable the governing body, specifically the higher responsible body, and the managements of companies to be aware of the perceived and actual benefits of International Financial Reporting Standards and give insight on how to adopt these international standards most efficiently.

Challenges of Adopting IFRS
Accounting Professionals across the world have listed various benefits of adopting IFRS. In spite of these benefits, adoption of IFRS is a difficult task and has many challenges. For example Iyoha and Faboyede (2011) identified ethical environment and the ability to protect qualified and competent employees from being poached by other companies as main challenges facing Nigerian companies. Wong (2004) said that education and training are considered as major challenges militating against the adoption of IFRS. As evidenced by the global experience, convergence with IFRS would have significant challenges common to all countries and companies. Additionally, there are also certain specific challenges that are unique to particular countries (Robyn and Graeme, 2009). With the adoption of the IAS Regulation, requiring all EU listed companies to prepare their consolidated accounts in conformity with IFRS, EU publicly listed companies are facing many challenges, including fair value measurements to be considered to a greater extent (Jermakowicz ,2004; Alexander, 2003). IFRS would also present a challenge by way of more complex financial reporting requirements and resultant increase in costs; and availability of resources with expertise in IFRS. Similarly from an overall perspective, amendments to regulatory requirements and tax laws would be required; and impact on IT systems and compensation structures would need to be evaluated (Apostolos et al., 2010; Jermakowicz, 2004; Alexander, 2003). Jermakowicz et al. (2007) examine the challenges and benefits, including value relevance, of the adoption of IFRS by DAX-30 companies in Germany based on a questionnaire sent to company executives. They find that most companies agree that implementing IFRS should improve the comparability of financial statements while the complex nature, high cost of adopting and lack of guidance for implementing IFRS, as well as increased volatility of earnings after adopting IFRS, are listed among the most important challenges of conversion to IFRS. In some cases in India, the legal and regulatory accounting requirements in India differ from the IFRSs; in such cases, strict adherence to IFRSs in India would result in various legal problems in IAS 1 – Presentation of Financial Statements, IAS 21 – The Effects of Changes in Foreign Exchange Rates, IAS 34 – Interim Financial Reporting, IAS 23 – Borrowing Costs and IAS 19 – Employee Benefits.

Statement of Problem
In recent years, the development of international accounting standards and adoption by such industrialized countries as: Britain, Germany, United States of America, Canada and the members of the European Union have been a major of concern

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among accounting professionals. In spite of the numerous studies about the Adoption of International Financial Reporting Standards by developed and industrialized countries around the world, less attention has been given to developing countries. Various survey studies have been conducted to assess the adoption of International Financial Reporting Standards in different countries of the world. A set of studies have been conducted in relation to the importance. The other set of studies have been conducted on the effect IFRS has on companies and countries at large. This study is therefore motivated because of the absence of studies in the area of IFRS adoption, its benefits in India. In this context, an attempt has been made to analyse the benefits of adoption IFRS is from experts' point of view in India.

Objectives

The main objective of the paper is to study the benefits of adoption of International Financial Reporting Standards (IFRS) in India.

Methodology

This study was executed in Chennai that is one of the important Capital cities in India. It has intent to assess benefits on the adoption of International Financial Reporting Standards in India. To do this, the methods employed are survey design. This survey was conducted by means of self-administered questionnaire which was distributed to finance officers (CFO, Controllers or Accounting Directors), Auditors, Financial Consultants and Accountants of companies which adopt IFRS. The sampling design for this population is simple random sampling. Since the aim of the study is to make theoretical inferences from the results of the study that are suitable for further empirical investigation in any other context, this random sampling is the most appropriate method. The number of finance officers and accountants in the headquarters of the respective companies were collected from human resource of each organization and all of them were included in the sample. And the researcher distributed up to 105 questionnaires. This study used both primary and secondary data. Primary sources of data include interview and questionnaire, whereas secondary sources data was generated through a review of relevant documents. The questionnaires were structured based on the close- ended questions; the respondents were asked to indicate their level of agreement on a five point Likert scale with the following ratings. Strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (D; or 2), and strongly disagree (SD; or 1). On this scale a score of 5 or 4 indicates that the item is perceived to be essential while a score of 3 or 2 indicates that the item is perceived to be fairly important, but not essential, while a score of 1 indicates that the item could be disregarded for being unimportant. Semi structured interview with financial managers and audit directors of the selected companies were conducted. It allowed the investigator some degree of flexibility at the time of interviewing for the pursuit of unexpected line of inquiry which was arising at the study progresses. Finally 75 questionnaires were received with complete and relevant information.

Tools: The descriptive analysis was carried out by using Statistical Package for Social Science (SPSS).

Results and Discussion

To study the data were collected and analysed and demographic of the respondents are presented below.

Table 1 Socio-Economic Profile of Respondents

Demographic Elements	Characteristics	Number of Respondents	Percentage
Gender	Female	23	30.7
	Male	52	69.3
Academic Level	Diploma	10	13.3
	Degree	59	78.7
	Master Degree	6	8.0
Working Experience	less than five years	28	37.3
	6 to 10 years	22	29.3
	11 to 15 years	15	20.0
	16 to 20 years	6	8.0
	over 20 years	4	5.3

Source: Primary Data

It could be observed from Table 1 that the male and female composition was 69.3 percent and 30.7 percent respectively among

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respondents. Regarding education 78.7 percent of respondents were degree holders, only eight percent were master degree holders. With regard to experience in the field of finance and accounting, 37.3 percent of respondents had less than five years experience, up to 15 years experience, 49.3 percent of respondents and rest of the percentage having more than 20 years experience.

Benefits of Adoption of IFRS

The analysis of benefits of adoption of IFRS was carried out with information collected through interview schedule with companies, investors, management, and other stakeholders such as regulatory bodies.

Benefits of Adoption of IFRS to Companies

Seven questions were distributed to assess the benefits of IFRS adoption to Indian Companies.

Table 1 Descriptive statistics benefits of adoption of IFRS to Companies

Attributes	Mean	Std. Deviation
Adoption of IFRS improves the Efficiency of Financial Reporting	4.7200	0.45202
Financial statements based on IFRS are Reliable and Comparable	4.4133	0.75504
Adoption of IFRS improves Effectiveness of Financial Reporting	4.4133	0.63869
IFRS makes External Financing Easier	4.1733	0.84427
It provides greater Reporting Transparency	4.4133	0.57171
It enables greater Effectiveness of the Internal Audit	4.1867	0.94000
Reduced cost of Capital	3.8750	0.99205

Source: Primary Data

The mean response of the seven questions under benefits of adoption of IFRS to companies were more than 3.00 and the standard deviation were also less than 1.00, which indicates that the respondents perception were close to one another. In relation to the assertion that IFRS result in improved efficiency and effectiveness of financial reporting, many respondents (with mean response of 4.71) believe that adoption of IFRS improves the efficiency of financial reporting and the mean response of 4.41 to the question related to effectiveness of financial reporting under IFRS indicates that adoption of IFRS improves the effectiveness of financial reporting. The respondents agreed with the proposition that financial statements prepared based on IFRS are more reliable and comparable. Similarly, the interview result reveals that since similar economic transactions are accounted for similarly by eliminating different methods of accounting for the same transactions, adoption of IFRS leads to improved comparability and reliability of financial statements. Almost all of the respondents believe that the financial statements would become more transparent as a result of the adoption of IFRS while most believed that the adoption of IFRS would make external financing easier. The adoption of IFRS would also enable greater effectiveness of the internal audit. Many of the respondents believe that IFRS should have been implemented earlier in India due to the greater transparency and the better provision of information that IFRS supply in a globalized environment. In relation to transparency of financial statements the interview result reveals that the increased transparency promised by IFRS could substantially reduce the agency problem between management and shareholders through implementation of IFRS as increased transparency causes managers to act more in the interests of the shareholders. The final question under benefits of adopting IFRS for companies was about cost of capital of a firm, i.e. whether adoption of IFRS brings about a reduction in cost of capital for companies. As it is shown in the table above the mean response and standard deviation indicates that adoption of IFRS would significantly reduce cost of capital of firms. The aforementioned benefits of IFRS would lead companies to a reduced cost of capital.

Benefits for Investors

Three questions were distributed to assess the benefits of adoption of IFRS to investors.

Table Descriptive Statistics of Benefits of Adoption of IFRS to Investors

Attributes	Mean	Std. Deviation
IFRS provides better Information for Decision Making by Investors	4.5467	0.50117
Investors will have more confidence in the information presented using IFRS	4.4667	0.57735
Adoption of IFRS enhance Transparency of Companies through better Reporting	4.3333	0.55345

Source: Primary Data

As shown in table the mean response was above 3.00 and the standard deviation was less than 1.00. It indicates that the

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respondent perceptions were close to one another. This shows that in the view of respondents the adoption of IFRS will make it easier for investors to evaluate the financial performances of organizations with which they might do business or invest in, enhance transparency of companies through better reporting, and they will have more confidence in the information presented. One of the main objectives of IASB is to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions. According to this objective of IASB adoption of IFRS enhance transparency of companies through better reporting and provides better information for decision making by investors. Since the standards are high quality, transparent and comparable, investors will have more confidence in the information presented using IFRS.

Benefits for Management

Three questions were distributed to assess the benefits of adoption of IFRS to Management.

Table Descriptive Statistics of Benefits of Adoption of IFRS to Management

Attributes	Mean	Std. Deviation
Enables Better Risk Management	4.3056	0.54744
IFRS improves Management Information for Decision Making	4.5733	0.49792
IFRS promotes Cross Border Investment	4.1333	0.77692

Source: Primary Data

As it is shown in table three questions sought to ascertain the benefits of IFRS adoption to management. The mean responses of all questions were above 4.00. This indicates that in the view of respondents, adoption of IFRS provides management of a company with better risk management, improved management information for decision making and it promotes cross border investment. The interview result reveals that management will benefit, amongst others, improved management information presented in the financial statements which they can use for decision making. Managers will also be at ease to manage risk and value firms which follow identical accounting measures; the risk assessment can be done more accurately on account of decreasing disparities in the flow of information. They stated that IFRS financial statements are rather seen as a comprehensive information package, than only as a reporting of the financial situation of the company. The management gets better and easier information on how to direct the business.

Benefits for other Stakeholders

The last section of the questionnaire under benefits of IFRS probed the perception of respondents with regard to the importance of the adoption of IFRS for other stakeholders. Benefits of IFRS for stakeholders such as regulatory bodies, accounting and auditing professionals and financial analysts are dealt in this particular section.

Table 3 Descriptive statistics of benefits to other stakeholders

Attributes	Mean	Std.Deviation
IFRS adoption improves regulation oversight and Enforcement	4.0000	0.69749
IFRS provides greater credibility and improved economic prospects for the accounting profession	4.2400	0.67464
It provides better reporting and information on new and different aspects of the business	4.3200	0.54920

Source: Primary Data

Under this section three questions were distributed and all of them had mean response of greater than 4.00 and standard deviation of less than 1.00. This indicates that in view of the respondents, adoption of IFRS is highly beneficial to other stakeholders. The interview result suggests that one set of universally accepted accounting standards could make it easier for multinational companies and international auditing firms to transfer accounting and auditing staff to other countries. In other words IFRS would provide professional opportunities for accountants and auditors to serve international clients and it would increase their mobility to work in different parts of the world either in industry or practice. This implies that adoption of IFRS provides greater credibility and improved economic prospects for the accounting profession. Similarly, other stakeholders such as regulatory bodies and financial analysts would benefit from improved regulation oversight and enforcement, overall better reporting and information on new and different aspects of the business.

Conclusion

It could be observed that from the above study the adoption of IFRS to Companies, Investors, Management, and other Stakeholders are beneficial. It leads to economical development of the country and be focused in the world market. Both country and global economy is inter-related so the adoption of IFRS is an appropriate and imperative one to the development of country globally.

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