

Adoption of IFRS in India and the Perception of Stakeholders

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Abstract: *There has been a long delay since 2008 for the adoption of International Financial Reporting Standards (IFRS) as it was first recommended to have been implemented in India. It was then expected that the new IFRS based standard, Ind AS, would be implemented in India from April 2011. However, despite the Government's interest in implementing the new accounting standards and rightly so, the stakeholders, especially the companies were not ready to adopt the same. The adoption process actually came in April 2015. In this context, the perception of IFRS was sought from three stakeholders who are directly or indirectly are part of the process of implementing Ind AS, i.e., Chartered Accountants, Financial Managers and Financial Analysts. A survey was conducted among 412 stakeholders from the above of which 47% of respondents were Chartered Accountants, 20% and 33% were Financial Managers and Financial Analysts respectively. The analytical technique used in this study is Multiple Correspondence Analysis (MCA). The study shows that the stakeholders agree on various aspects of implementing Ind AS. The outcome from the study is apparent that CAs and Managers perceive alike and Analysts otherwise as far as the overall perception of implementation of IFRS is concerned.*

Keywords: IFRS, Ind AS, Perception, Stakeholder

1. Introduction

The Ministry of Corporate Affairs has introduced the International Financial Reporting Standards (IFRS) complied Indian Accounting Standards (known as Ind AS) as on 1st April 2015 for firms who want to adopt implementing voluntarily which otherwise would become mandatory from 1st April 2016 for those companies who come under the category of having turnover of more than rupees 500 crores. It is, certainly, a great step ahead in the global arena to append with the business language and be in tune with more than 119 countries who have adopted the standards and many are in line to do the same. It builds up not only the confidence of the international investors but also uplifts the economic and business tie-ups within and outside the country. There was tardiness in updating the Companies Act, issues with tax code, etc. Finally the new accounting standards were introduced from 1st April 2015 on voluntary basis and mandatorily from 1st April 2016.

Earlier studies show the best way of getting the confidence from the international investors is to adopt IFRS. The studies also show that IFRS does result in higher accounting quality resulting in more investor confidence. By analyzing the Indian companies adopting Ind AS, this study attempts to provide evidence to the question whether Ind AS (IFRS) adoption has any impact on the perception and relevance of financial reporting. Prospective foreign investors are yet to develop a confidence in the Indian disclosure of financial statements.

European Union started this process of uniting culturally and economically diverse nations within their ambit. It tried to bring in single currency to the entire European Union. It got rid of the border system, any one from the EU can travel and settle anywhere within the EU. Gradually, the harmonization

in the accounting segment arrived. Because of this major change it is reaping the benefit of economic growth.

Once Ind AS is mandatory for all firms, India can look forward not only to an economic growth but also increase in global tie-ups. It is the fact that the existing accounting standards are perceived to be not transparent which is more "private" in nature. Financial information is less public prior to the mandatory IFRS adoption (Yang 2010) [28]. As transparency is the key, the information available will be more authentic and dependable for the prospective investors and decision makers. More of information available publicly means borderless economic activity is common (Bozkurt et al (2013) [10].

The objective of this paper is to study the perception of stakeholders who are directly or indirectly the part of implementation of IFRS. Various aspects leading to implementation of IFRS are being examined here.

2. Literature Survey

IFRS related studies are mainly based on relevance of accounting standards to the nations adopted or adopting IFRS. Several studies have been done as to the quality of financial reporting, comparison between two or more accounting standards, pre and post adoption analysis, etc. Earlier studies show that IFRS does result in higher accounting quality leading to more investor confidence. This study presents a brief review of the studies done in the area of perception of stakeholders before, during or after the adoption of the new accounting standards.

Perception of IFRS has been studied globally and the study is in its initial stage in India as the new standards are just being introduced. Studies have been conducted in Europe (Barker and Imam, 2008) [5] on brokerage firms to know the

perception of analysts on earnings quality and the study found that when assessing earnings quality, analysts use account based information as well as non-accounts based information. The result also showed when analysts find a conflict between accounts based information and non-accounts based information; accounts based views gave a forceful signal. It was found that when it came to investment related decisions, accounts based recommendations played a major role.

Benetti (2011) [8] conducted a survey among three categories of stakeholders, Chartered Accountants, Chief Financial Officers and Financial Analysts with a total sample of 824 respondents. He observed that there are similarities between sophistication of users of “accounting information” and diffusion of accounting information among countries and activities such as CFOs and Auditors. His study also found that Brazilian respondents believed more strongly in legal and fiscal system based accounting information and that it can bring benefits to the investors. The results showed that analysts, institutional investors and creditors used accounting information to the maximum and institutional investors were the influential stock price setters. The study found that on the positive side, voluntary disclosures promoted a “reputation of transparent and accurate reporting” but voluntary disclosure can also run the risk of exposing “strategic information” to rivals. Moreover, it was observed that auditors ascribed more importance to earnings than analysts and CFOs. One of the highlights of this study was fair value aspect which is believed to have a “strong impact on the accounting figures”.

Rezaee et al (2010) [23] studied academicians and accounting practitioners’ insights on the convergence of accounting standards. They conducted a survey on accounting academicians and accounting practitioners to ascertain the “relevance, benefits and ways to adopt IFRS”. The results were categorized into five sections: “relevance of convergence, perceived benefits of convergence, perceived obstacles to convergence, ways to convert to IFRS and differences in responses”. The study concluded that by implementing international accounting standards, comparability of financial reporting is possible at the global level.

Bozkurt et al (2013) [10] highlighted the perception of professionals who were interested in adaptation of global accounting standards. The study was conducted in Turkey and involved 430 respondents. The paper highlights the aspects of perception, expected utility, interpretation and responsibility in the practice of IFRS.

Accounting information is said to be relevant if it assists investors to evaluate a firm and a firm’s share price is rightly reflected in the stock market (Barth et al 2001) [6]. Lack of disclosure of required information is a result of lack of quality in financial reporting. As a consequence, it leads to the decline in value relevance of accounting information (Shamki & Rahman, 2013) [25]. There has been a significant impact on quantitative aspect in both countries, that is, Spain and United Kingdom, by adopting IFRS, both at the time were first time adopters (Gaston, Garcia, Jarne, &

Gadea, 2010) [15].

Analysts are one of the most important users of accounting information (Hope 2003; Arnold and Moizer, 1984; Pike et al, 1993 etc.) [16], [2], [22]. Barker (1998), Graham, Harvey and Rajgopal 2005 [4] and others concluded that barring financial analysts, managers, institutional investors, employees, etc. also use accounting reports for analysis and is an important aspect in decision making process.

Much of the studies were conducted in foreign countries but no research is done yet in India by taking into account the perceptions of the three major stakeholders, ie, Chartered Accountants, Financial Managers and the Financial Analysts. Many studies on perceptions of financial reporting have been conducted but not on the stakeholders of implementation of IFRS. There are only limited studies on IFRS in general and perception on IFRS in particular in India so far conducted.

3. Methodology

A survey was conducted to know the perception of the stakeholders involving Chartered Accountants (CA), Financial Managers (FM) and Financial Analysts (FA). Questionnaire was administered to a total of 412 respondents from different geographical regions of the country.

Cochran’s formula was used to calculate the sample size for infinite population:

$$n_0 = \frac{z^2 pq}{e^2}$$

Or
= (Z-score)² * p*(1-p) / (margin of error)²
= (1.96)² * 0.5*(1-0.5) / (0.05)²
= 3.8416 * 0.25 / 0.0025
= 384.16
= 384
(Z-score is 1.96 for a 95% confidence level)

Therefore, a minimum of 384 samples were to be collected. Questionnaire was designed to avail information from the stakeholders regarding the perception of accounting professionals, preparers of accounting information and users of accounting information. The questionnaire was divided into five parts, first of which was on demographic information, second on accounting information, third on performance management, fourth on accounting quality and final part was on implementation of IFRS. The objective of the survey was to get the perception of the stakeholders on implementation, transparency, relevance of accounting figures, disclosures, fair value, training required, impact on financial reporting and potential benefits by adopting the new accounting standards. The analysis of data was processed using SPSS and Minitab. Forty seven percent of respondents were Chartered Accountants, 20% and 33% were Financial Managers and Financial Analysts respectively. The responses were evaluated and analysed using Multiple Correspondents Analysis (MCA). This method relies on measurement of variables as per the defined categories. For the purpose of analysis, all the variables have been labelled

and given an assumed values between 1 and 5, lowest for strongly disagree and highest for strongly agree.

4. Results and Discussion

The result shows that there is significant difference in the distribution of the ratio computed under switching to IFRS. Eigenvalue of more than 1 is acceptable and is significant. Through the statistical test the variables are grouped into two dimensions which can be seen in the following table.

Table 1: Model Summary of Dimensions and Measure of Internal Consistency

Dimension	Cronbach's Alpha	Variance Accounted For		
		Total (Eigenvalue)	Inertia	% of Variance
1	0.941	13.956	0.181	18.125
2	0.916	10.399	0.135	13.506
Total		24.356	0.316	
Mean	.930 ^a	12.178	0.158	15.815

The quality of representation is based on the number of components that can be derived from dataset. MCA is based on feature reduction and feature extraction. It creates a new variable made up of many variables, with a set of related data that explains most of the variables. It repeats the process with the next group that explains the second most variants and that will be the second component and so on. First component will be the most powerful one as it explains most of the variants. The higher dimension which explain most of the variables are taken into account for analysis purposes. It doesn't look into what will be the outcome of variants. This technique is also used in video compression, text compression etc.

Scree plot is basically mutual representation. As it depicts in figure 1, two components are selected (components up to "elbow curve") as they explain most of the inertia (the first dimension explains 18% of inertia and the second dimension explains 13% of the inertia). It not only displays the selection of component but also contribution from each component and is quantified by Eigenvalue. Most significantly, contribution comes from the first and second component. Further on there is little additional information coming from remaining components to the system. Therefore, the importance lies with component 1 and component 2 respectively. It can be observed that only two components are significant in association with Eigenvalue. By looking into cumulative percentage, total variability is explained. If twenty variables (questions) are needed to explain 90% of the variability but those variables are reduced to five variables explaining 80% variability then the data will be made up of five dimensions with the reduction of 20% variability. By combining all of the variables to produce a simpler description of the system will result in a new dimension.

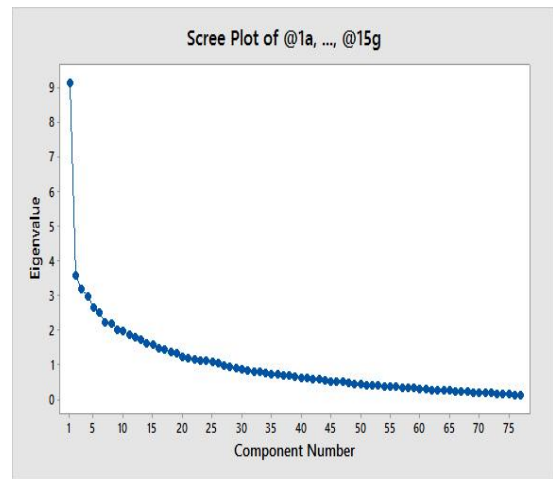


Figure 1: Scree Plot of variables

The above scree plot highlights the first two components. Each subject in the data has been plotted on the basis of its first and second component values.

Score plot in figure 2 displays the first component is concerned with variables and the second one is involved with visual comprehension. It can be seen how the individual has scored for each of latent variables and how the variables are plotted against the designation. The degree of correlation is as expected, we can see that the values range from around -10 to 15 for the first component score (variables) and around -5 to 10 for the second component (Designation). In figure. 2 which depicts the perceptual mapping, it is evident that all of the stakeholders are in close agreement as far as their perception is concerned on various variables tested. There are similarities as far as the perception of the stakeholders is concerned. But based on detailed analysis there exist a difference between Analysts on one side and Chartered Accountants and Financial Managers on the other (figure 3).

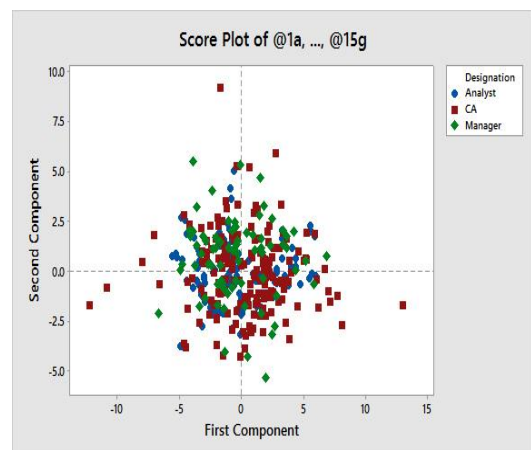


Figure 2: Score Plot of variables and designations

In MCA, categories of similar distributions are represented as points that are close in space, similarly, categories that do not have similar distributions are positioned far apart. If a profile is not similar from the average profile (centroid), then that point is placed far away from the origin and the profile that are close to the average is placed closer to the centroid. However, if all the categories have equal profiles then" all the points will fall in the centroid". In the figure 2 rows are

plotted based on the principal coordinates and columns are plotted based on standard coordinates.

Figure 3 was represented taking into account the overall perception of the stakeholders. If the two categories are close to one another that means their responses were similar over all the variables. Proximity between two categories is interpreted as closeness between two groups [(Blasius & Greenacre, 2014)]. Hence, it is evident category CA and category Manager are in the same group when it comes to expressing their perception. Whereas, category Analyst is far away not only from the centroid but also from the other stakeholders in perceiving the implementation of IFRS. The outcome of this study shows that stakeholders CA and Manager are positioned relatively closely indicates a similarity in their perception on adoption of IFRS. Whereas, the Analyst, is positioned relatively far away from CA and Manager which indicates that Analysts are very different in their opinion on implementation of IFRS.

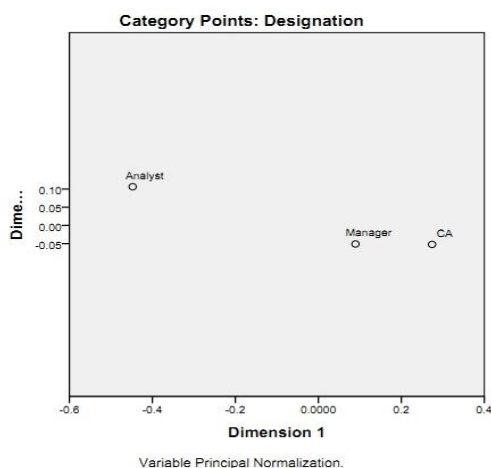


Figure 3: Perception mapping of stakeholders

5. Conclusion

The very purpose of implementing IFRS/Ind AS is to bring in more quality in terms of financial reporting. Nevertheless, from the initial implementation of IFRS in the EU, the reports that came after the implementation of IFRS show it otherwise. Especially, in Germany, the research showed that there is better accounting quality in the earlier German GAAP than in the new accounting standards i.e., IFRS. The main aim of this research was to get the opinion, not only on accounting quality but also other variables mentioned above, of producers of accounting information i.e. Financial Managers, controllers of accounting information, i.e., Chartered Accountants and users of accounting information, i.e., Financial Analysts, who are the major stakeholders as far as the adoption of IFRS is concerned. Accounting professionals believe that although cost is a factor in implementing the new standards, it is also important to have uniform accounting standards worldwide, terming it as a “common accounting language”. It is evident from this study that CAs and Managers perceive alike and Analysts otherwise as far as the overall perception of implementation of IFRS is concerned. Through this study, it was observed

there is a positive outlook towards benefits of implementing IFRS.

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