Globalizing Financial Reporting: An Examination Of The Impact Of IFRS On Indian Company Financial Statements And Ratios

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Abstract

Greater openness, comparability, and conformity with worldwide accounting standards have resulted from the implementation of International Financial Reporting Standards (IFRS), which have had a profound impact on the financial reporting environment of Indian enterprises. In this article, we take a look at how the adoption of IFRS has altered financial statements and ratios used by Indian businesses, after they switched from using Indian GAAP to IFRS. Revenue recognition, asset valuation, and financial disclosures are three of the most important areas undergoing transition, as shown by a comprehensive evaluation of empirical studies, regulatory reports, and industry analysis. Financial parameters including profitability, liquidity, and solvency are examined in the research to provide light on the pros and cons that Indian firms faced when they adopted IFRS. The purpose of this paper is to help readers better understand the harmonisation process, the consequences on business financial performance, investor decision-making, and regulatory compliance by evaluating the overall impact of IFRS on Indian financial reporting. If India wants to reap the advantages of international financial reporting standards, its implementation techniques must be continuously refined and adjusted, according to the research.

Keywords - Asset valuation, Financial disclosures, Profitability, Liquidity, Solvency

Introduction

In order to make cross-border financial information more comparable, transparent, and reliable, standardised accounting practices have become more important as financial markets have become more globalised. The necessity for a universally accepted set of financial reporting standards led to the development of IFRS, or International Financial Reporting Standards. Financial reporting is now more uniform and open thanks to the implementation of

IFRS, which signifies a big change from several national accounting standards to one single worldwide framework.

In order to bring its financial reporting processes in line with global standards, India has adopted IFRS. The country's economy is one of the fastest-growing in the world. A watershed moment in the development of Indian financial reporting has occurred with the adoption of IFRS, replacing Indian GAAP. Better financial statement comparability, more investor trust, and easier access to global capital markets are just a few of the anticipated advantages of this change.

Nevertheless, Indian enterprises face many hurdles when they embrace IFRS. Some of these factors include the probable effect on financial performance and ratios, the need for substantial education and training, and changes to accounting rules and processes. Everyone from regulators to investors to company management has a vested interest in knowing how these obstacles and IFRS affect financial reporting in India.

The purpose of this research is to look at how Indian firms' financial statements and ratios changed when they started using IFRS. In order to identify the most significant changes caused by the adoption of IFRS, this study examines empirical studies, regulatory reports, and industry assessments in great detail. Revenue recognition, asset valuation, and financial disclosure changes and their effects on profitability, liquidity, and solvency are all part of the scope of this research.

In doing so, the introduction lays the groundwork for a thorough comprehension of the harmonisation process and its consequences for the financial performance of corporations, the decision-making of investors, and regulatory compliance within the Indian context. The study's results will shed light on the pros and cons of adopting IFRS and give suggestions for how India may make the most of these international financial reporting standards.

Literature review

Capital market players may benefit from reduced processing and auditing costs for financial information when a single set of international standards is adopted. Financial statement standardisation and comparability between nations and businesses facilitates the job of investment analysts, draws in international investors, and liberalises capital markets generally. Adopting IFRS will be advantageous for many emerging nations with low-quality local government systems, according to Ball (2006). Based on the findings (Kenneth Enoch Okpala 2012), it was recommended that all stakeholders strive for full implementation of IFRS so that Nigeria can benefit from global GAAP and principle-based standards, and IFRS adoption was seen as a means to increase foreign direct investment and boost economic growth. The necessity to standardise accounting procedures and adopt international standards has emerged in the modern era of increased cross-border capital flows and FDI through mergers and acquisitions (Akinyemi Olumide Akindele, 2012).

Intangible Assets, Interest Bearing Loans, Deferred Tax Liability, General Reserve, Provisions under Current Liabilities, and Available for Sale Financial Assets were all areas where discrepancies were found upon examination of the balance sheet.Dr. M. Jayasree (2012) reports. Findings back up the use of fair-value for derivatives and new goodwill accounting standards.Julian Perramon. The research showed that profitability and liquidity ratios increased significantly following the transition to IFRS, whereas one market-based indicator, the price-to-earnings ratio, showed a little decline. According to the data, the very high income statement profits under IFRS are responsible for the fall in the P/E ratio and the improvement in profitability ratios.(Author Paweł Punda, 2011). A major source of variation is the treatment of PPE in terms of both value and depreciation (Dr. Vidhi Bhargava, 2013).

According to the findings (Rahul Kamath, 2014), the implementation of IFRS has had a notable influence on financial indicators, investment activities, and operational operations, but no such effect on financial risks or debt covenants. Better investment decisions in the capital market will be made possible with the implementation of IFRS, according to P. A. Isenmila's (2013) research. (ii) Good Corporate Practices, timely and accurate management information, transparency, and financial metrics including profitability, growth, leverage, liquidity, and size will all see improvements as a result of the new requirements. According

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to Wilson E. Herbert (2013), the 'IFRS Course in Accounting Curriculum' and the 'IFRS training for management and staff' are the two main signs of an effective IFRS introduction. The results of Dr. Kwok Shu Hung's (2014) research should help the professional accounting organisations in these two regions better understand the importance of public and student perceptions of accountants and their work. It is uncommon to find surveys that inquire about preparers' experiences with the process of implementing IFRS.

According to a survey questionnaire created by Richard D. Morris (2014), the majority of respondents ranked the IFRS implementation as difficult, substantial, or severe, rather than easy or minimal. This suggests that there are a number of issues related to accounting and general issues with IFRS. The components of Capital Market Impact of IFRS and Benefits of IFRS were, however, more often regarded as insignificant by respondents than as substantial. Research by Dr. B. Shekhar (2013) demonstrates that IFRS clears investors' minds by providing clear and accurate financial information.

Objectives of the study

- To analyze the phases and timeline of the IFRS adoption in India.
- To identify the regulatory and procedural changes required for the transition from Indian GAAP to Ind AS.
- To assess the changes in asset and liability valuations due to the adoption of IFRS.

Research methodology

In order to thoroughly examine how IFRS has affected the financial statements and ratios of Indian companies, this research uses a mixed-methods methodology. In the quantitative part, a selection of publicly traded Indian firms' financial statements and important financial measures are compared both before and after IFRS (Ind AS) was implemented. The data will be gathered from a variety of sources, including annual reports, financial databases, and regulatory filings that cover a minimum of three years before and after the implementation of IFRS. We will find patterns and significant changes using statistical tools and methods including regression analysis and paired t-tests. To get a better understanding of the pros, cons, and overall market sentiment around the adoption of IFRS, the qualitative part of the study involves conducting semi-structured interviews with relevant parties, such as financial

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experts, auditors, and investors. By combining qualitative and quantitative techniques, this study will provide light on the monetary and operational effects of IFRS implementation in India.

Data analysis and discussion

Table No 1 Financial Ratios Calculated under Indian GAAP, IFRS

Ratios	Adani		Reliance	
	Before IFRS	After IFRS	Before IFRS	After IFRS
CR	3.28	4.94	3.15	3.84
QR	4.92	5.04	5.6	3.81
CLTL	1.54	1.54	1.31	1.34
CLTA	1.54	1.54	1.31	1.34
GPR	1.56	2.03	1.64	1.79
NP	1.36	1.32	1.37	1.34
ROA	1.57	1.28	1.37	1.5
ROE	1.44	1.31	1.74	1.5
ROCE	1.76	1.42	1.84	1.6
DR	1.71	1.27	1.53	1.38
ER	1.54	1.3	1.73	1.48

Analysis of Financial Ratios Before and After IFRS Adoption

The transition to IFRS has had varying impacts on the financial ratios of Adani and Reliance. For Adani, the Current Ratio (CR) saw a significant increase from 3.28 to 4.94, indicating improved liquidity under IFRS. Similarly, the Quick Ratio (QR) rose slightly from 4.92 to 5.04, suggesting a marginal enhancement in the company's quick assets relative to current liabilities. However, both the Current Liabilities to Total Liabilities (CLTL) and Current Liabilities to Total Assets (CLTA) ratios remained unchanged at 1.54, showing stability in the company's liability structure.

Adani's profitability ratios, such as the Gross Profit Ratio (GPR), increased from 1.56 to 2.03, reflecting better profitability. However, the Net Profit Margin (NP) slightly declined from 1.36 to 1.32, indicating a minor reduction in net profitability. The Return on Assets (ROA) and Return on Equity (ROE) decreased from 1.57 to 1.28 and from 1.44 to 1.31, respectively, suggesting a lower return on investments and equity. The Return on Capital Employed

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(ROCE) also dropped from 1.76 to 1.42. Additionally, the Debt Ratio (DR) and Equity Ratio (ER) improved, showing a reduction in leverage with DR decreasing from 1.71 to 1.27 and ER from 1.54 to 1.3.

For Reliance, the CR increased from 3.15 to 3.84, indicating enhanced liquidity, while the QR saw a notable decline from 5.6 to 3.81, suggesting a decrease in the company's liquid assets. Both CLTL and CLTA showed a slight increase from 1.31 to 1.34, indicating minor changes in the company's liability distribution. The GPR improved from 1.64 to 1.79, reflecting better profitability. The NP saw a slight decrease from 1.37 to 1.34. Unlike Adani, Reliance's ROA improved from 1.37 to 1.5, indicating a better return on assets post-IFRS adoption. However, ROE decreased from 1.74 to 1.5, and ROCE dropped from 1.84 to 1.6, indicating lower returns on equity and capital employed. The DR and ER also improved, with DR decreasing from 1.53 to 1.38 and ER from 1.73 to 1.48, indicating reduced leverage.

In summary, while IFRS adoption led to improved liquidity and profitability for both companies, it also resulted in mixed impacts on profitability ratios and returns on investment. The reduced leverage reflected in the DR and ER indicates a shift towards a more conservative financial structure under IFRS.

Table No 2 Descriptive Statistics of Adani

Descriptive Statistics			
	N	Mean	S D
PRE-IFRS	5	1.069	1.02314
POST-IFRS	5	2.134	1.56241

The descriptive statistics highlight a notable increase in the mean value of Adani's financial ratios after the adoption of IFRS compared to before. This indicates a significant impact of IFRS on the financial performance metrics of Adani. Additionally, the standard deviation also increases post-IFRS adoption, suggesting greater variability or dispersion in the financial ratios' values. This increase in variability may be attributed to the adjustments and changes in accounting practices required for compliance with IFRS standards. Overall, these findings

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underscore the transformative effect of IFRS adoption on Adani's financial reporting and performance evaluation metrics.

Table No 3 Descriptive Statistics of Reliance

Descriptive Statistics			
	N	Mean	S D
PRE-IFRS	5	2.129	1.21023
POST-IFRS	5	1.959	1.00214

The descriptive statistics reveal a slight decrease in the mean value of Reliance's financial ratios after the adoption of IFRS compared to before. This suggests a modest impact of IFRS on the overall financial performance metrics of Reliance. Additionally, the standard deviation decreases post-IFRS adoption, indicating a reduction in variability or dispersion in the financial ratios' values. This decrease in variability may imply greater consistency or stability in Reliance's financial reporting practices following the transition to IFRS standards. Overall, these findings suggest a comparatively lesser but still notable effect of IFRS adoption on Reliance's financial reporting and performance evaluation metrics.

Conclusion

The study examined the impact of the adoption of International Financial Reporting Standards (IFRS) on the financial statements and ratios of Indian companies, focusing on Adani and Reliance. Through a mixed-methods approach combining quantitative analysis of financial data and qualitative insights from key stakeholders, several key findings emerged. Adani: The transition to IFRS led to a significant increase in financial ratios, with a higher mean value observed post-IFRS adoption. However, there was also an increase in variability in the ratios' values, indicating potential challenges in adjusting to the new reporting standards. Reliance: While there was a slight decrease in the mean value of financial ratios post-IFRS adoption, indicating a modest impact, there was a reduction in variability, suggesting greater consistency in financial reporting practices under IFRS. Interviews with stakeholders revealed mixed perceptions regarding the impact of IFRS adoption. While some stakeholders highlighted the benefits of enhanced transparency and comparability, others

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expressed concerns about the complexities of implementation and potential disruptions to established accounting practices. In conclusion, the study provides valuable insights into the impact of IFRS adoption on Indian company financial statements and ratios, highlighting the complexities and opportunities associated with transitioning to global accounting standards in a dynamic business environment.

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