

## Consequences and determinants of IFRS convergence in India

### Abstract

**Purpose:** This paper provides evidence of how convergence to IFRS impacts accounting values and causes of variation in equity adjustments among Indian companies.

**Methodology:** Specifically, using a sample of 323 listed companies, we test whether there is a significant difference between converged IFRS (Ind.AS) and Indian GAAP (AS) reported figures and ratios and why companies adjust differently. The empirical analysis was conducted using the Test of equality, F-test, T-test and ordinary least square.

**Findings:** Our study reveals that fair valuation under Ind.AS causes a significant decrease in goodwill. We also found a substantial decrease in both current and long-term liabilities due to non-recognition of propose dividend, discounting of long term provision per Ind.AS. The variations in equity adjustment were significantly influenced by capital structure, level of family control and auditor type.

**Implication:** We alert users who are interested in historical data, that Ind.AS brings significant changes in the accounting values and ratios and the impact differ among companies based on capital structure, ownership, and auditor type

**Value/ originality.** This paper provides an original contribution on India convergence as is the first paper that analysis rationale for the differences between IFRS Indian converged GAAP and Indian local GAAP among companies.

**Keywords:** Convergence, IFRS, IGAAP, Ind.AS, India.

## 1.0. Introduction.

India has been developing its local standards since 1979, (Krishman, 2018; ICAI, 2007). However, the call for global harmonisation of accounting standards has pressured it [India] to converge with IFRS. Given Indian's move towards IFRS adoption and the key role it plays as "the mother of all outsourcing opportunities" (Hoogervorst, 2015), it is important to inform literature on the impact of IFRS on Indian companies financial statement. We argue that this gap exists for three reasons. First, although Indian open its economy in 1991 to the world through the Liberation, Privation and Globalisation program, its businesses are still dominated by government and family ownership (Krishman, 2018; Perumpal et al. 2009; Tawiah et al. 2015). Additionally, there is a high level of promoter ownership making it closely held companies. These business structures differ from settings of prior studies which are mostly European with private and dispersed ownership.

Second, India is a founding member of the International Federation of Accountants (IFAC), and member of IASB which have been promoting IFRS for 40 years now. Additionally, the Institute of Chartered Accountants, India (ICAI) claim that they have been providing inputs to IASB in the development of IFRS. Despite these involvements in the globalisation of accounting practices, it took India 7 years after the first IFRS (2003) to initiate action on its roadmap to convergence and not even adoption. Also, it took the country another five years to announce the implementation of the converged IFRS standards which was developed in 2010 (Jain, 2011). These long timelines clearly indicate that India has carefully carved out and carved in Ind.AS (for simplicity and convince we refer Indian converged IFRS as Ind.AS hereafter) to reflect the unique business practices in the country (Kantayya, 2016) as well as the trend of global accounting harmonisation (Rekhy, 2015, Sharma and Kansal 2017). According to Krishman, (2018), some of the issues that necessitated convergence rather than full adoption are; to maintain consistency with existing legal and regulatory requirements; the lack of an efficient market to determine the fair value of various assets (see also ICAI, 2007).

Third, the stagewise implementation of the standard indicates that India has 2 set of legally enforceable accounting standards (existing local IGAAP and the new converged IFRS for listed companies). Further Indian companies that are traded in the USA and Europe prepare accounts according to IFRS as issued by IASB and which makes it three different sets of accounting standards operating in India. Therefore, an understanding of the possible difference in accounting values can enlighten the accounting users in the interpretation of financial statements of listed companies in India. More importantly, since convergence is different from

full adoption, it is interesting to inform literature about how converged IFRS financial statements differ from full adoption financial statements especially for an emerging economy like India as it positions itself as the mother of all outsourcing opportunities.

To shed light on the value impact of IFRS convergence in India, we have examined the changes in accounting values and ratios. With sample 323 listed companies) during the 2015-2017 accounting period, we are able to document the impact of Ind.AS on existing IGAAP and IFRS as well as the behaviour pattern of companies towards the adjustment. Consistent with Lantos and Sahlstorm (2009), Lueg et al. (2014), we test the statistical significance of the difference on key values, and the ratio between different accounting standards using Wilcoxon sign ranked test. We use ordinary least square, to examine why IFRS impact differently on companies.

Our results show that fair valuation requirements of Ind.AS causes a significant decrease in goodwill. While IGAAP recognises goodwill on book values, Ind.AS recognise goodwill based on the fair value of assets of the acquiree. Similarly, the total liabilities decrease because of the discounted value measurement of long term provision and non-recognition of proposed dividend under Ind.AS. These decrease in current liability resulted in a significant increase in the current ratio. With regards to the effects on the income statement, we did not find any significant impact on revenue and net profit. However, we attribute the significant change in the earnings per share to the reclassification of extraordinary items, archival gains/loss on employee benefits and amortisation of goodwill. The findings from 2016 and 2015 analysis show that the convergence to IFRS in India causes significant changes in reported figures, especially on balance sheet items. The 2015 results confirm the robustness of our approach in testing the impact of IFRS convergence in India.

The direction of change between IGAAP and IFRS is consistent with that of the changes between IGAAP and Ind.AS. This confirms how Ind.AS has bridged the gap between IGAAP and IFRS. However, the difference between Ind.AS and IFRS provide empirical evidence that convergence is not equivalent to full adoption.

Regarding the determinants, we found that leverage has a positive and significant relationship with the extent of Ind.AS adjustments in the balance sheet. Similarly, companies audited by the Big4 have larger adjustments than non-Big4 clients. However, less dispersed as well as family-controlled companies show small adjustments in the balance sheet.

Although there are some prior studies: ACCA (2013); Fito et al. (2012); Gaston et al. (2010), Lantoo & Sahlstrom (2009); Lueg et al. (2014); Wu et al. (2014); Marzuki and Wahab (2016); Serkan et al (2013), Tsalavoutas & Evans (2010); on the impact of IFRS on financial statements, the current study differs from prior studies in fourfold. We extend literature with the inclusion of determinants of factors that cause the difference among companies. Our findings help establish some behaviour pattern explaining changes in accounting numbers after application of IFRS. Second, India provides unique settings regarding time frame and business practices which has not been captured in prior studies. Our results confirm this assertion as it yields findings different from existing literature. Whereas prior studies argue the increase in assets due to fair valuation, our results indicate a decrease.

Similarly in other countries (Gaston et al. (2010) –Australia; Lueg et al. 2014 - UK; Stent et al. 2010- New Zealand; it was found that IFRS increase current liability, but we found a significant decrease in India. Third, unlike prior studies, our analyses have two years of the same sample set which provide an opportunity to assess the consistency of the impact. Fourth, we provide a comprehensive impact of convergence on both existing GAAP and IFRS statement which yields findings for what if India adopted IFRS. This is novel in the literature of financial statement effects of IFRS. More importantly, our findings demonstrate how convergence can help the country to align its standards with IFRS and at the same time incorporate the local environment.

The rest of this paper is organised as follows. Section 2.0 gives a brief of accounting practices before IFRS in India and Section 3.0 provides a review of the literature. Section 4.0 covers the research design and methods. Section 5 presents the results and discussions, and Section 6.0 concludes the paper.

## 2.0. Accounting Systems and Practices

India existed as a country and engaged in trade in the BC (Before Christ); hence it is not wrong to start the genealogy of Indian accounting practices from the BC. As depicted in Figure 2.0 the historical development of Indian accounting system can be analysed over five periods.

In a quest to abolish the Nanada (dictatorship rule) during the pre-colonisation era, Vishnugupta Chanakya Kautilya wrote a book called Arthashastra in the 4<sup>th</sup> century that describes accurate measuring and reporting of economic activities as means of wealth creations (Kautilya'sS utra, Subramanian). In his book, Kaulitya stated that the objective of accounting is the explanation and prediction of economic activities (Kaulitya 4<sup>th</sup> Century). Using

arithmetic procedures including permutations and combination, he developed bookkeeping rules, procedures for preparation of income statements and budgets as well as performing independent audit (Sihag, 2004). Kaulitya focused on the accounting of public sector due to the dominance of the government business during his era. His accounting system concentrated on the arithmetic side of adding and subtracting of figures. This system was mostly a single entry.

During colonialization, the British's brought in strict uniform accounting practices especially on the East-India companies (Maston, 1986). Britain imposed their (Britain) local rules on the Indians in order to facilitate tax collection. There was also a need for a uniform accounting system because Indians traded with people from both the East and West during the colonial (Perumpal et al. 2009).

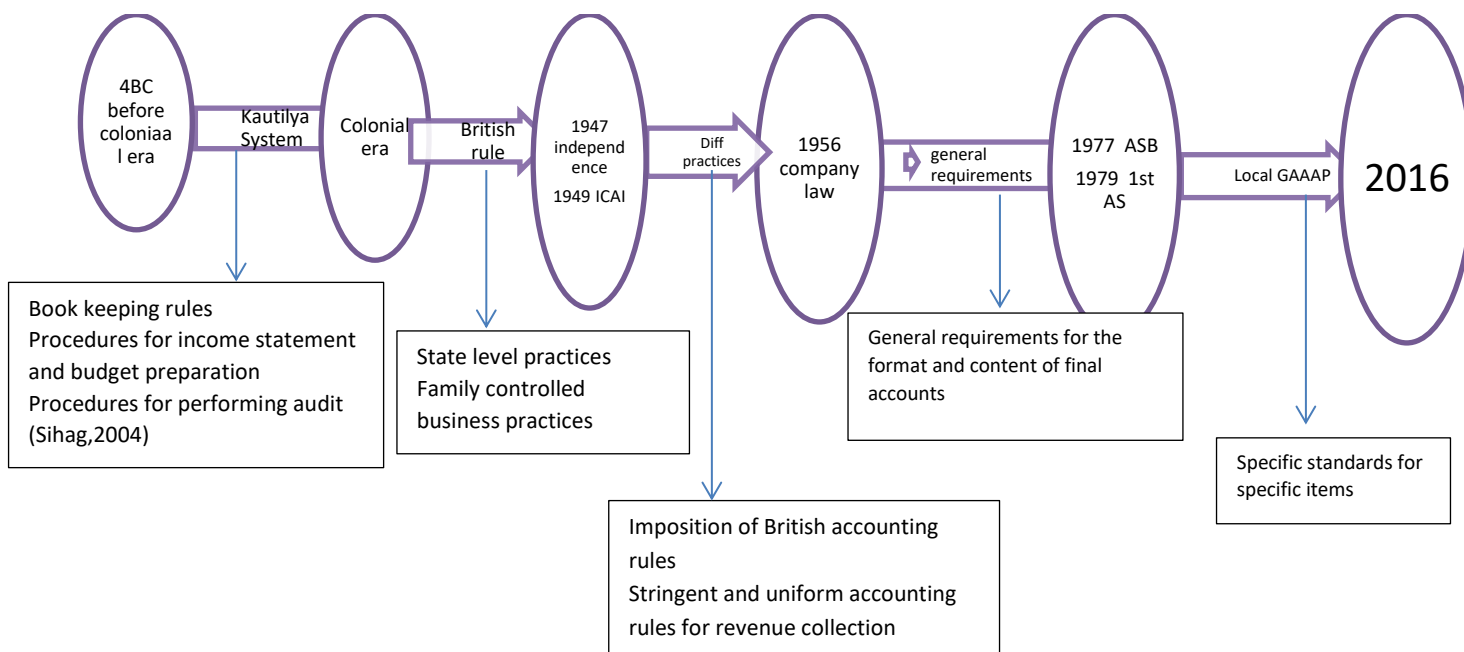
Independence of Indian from British also saw the private (family) takeover of some government business and British companies, as well as the start-up of family, controlled business such as TATAs' (Maston, 1986). Most family-controlled businesses were unwilling to disclose financial information due to fear of competition, payment of high taxes and the presentation of false accounts (Perumpal et al. 2009). Businesses were preparing accounts as it suits them without any reference to any standards. Again, each state and empire tried to develop laws that suit the people of the state. Although the ICAI was formed in 1949, it was just a body of professionals without any legal power to set standards. These professionals were people already practising across the country without any standardised formal training (Perumpal et al. 2009).

Although the inception of Companies Act 1956 brought some uniformity in the preparation of accounts, the requirements of the Act were general without referring to any specific standards. Section 211 of the Companies Act 1956 prescribes the content of the balance sheet and profit and loss accounting referring to the schedule VI in part 1. However Subsection 3A and 3C further state that the profit and loss, and balance sheet shall comply with standards recommended by the ICAI. Though mandated to set standards, until 1979 the ICAI has not set any standards hence there were no specific standards for accounts preparations.

In fulfilment of its (ICAI) mandate to recommend accounting standards, the ICAI established the Accounting Standard Board in 1977 to develop accounting standards. In 1979, the boards came out with its first set of standards starting with IGAAP (AS) 1 Disclosure of Accounting Policies. From that date onwards, the recommended standards and basis of preparation of

accounts in India has been the IGAAP (AS). Until India made the intention to change to IFRS through the concept paper in 2007, the ASB of ICAI has been developing and revising IGAAP (AS) to meet the continuous changing economic environment. Due to its membership to the IASC (IASB), the IGAAP standards are based on the principles of IASB making them closer to the IFRS (IAS) (*Report of the Committee on IFRS compliance Indian Insurance Industry by IRAD*)

**Figure 1 Phases of Accounting History of India**



### 3.0. Literature review

Due to the widespread of IFRS across the world, both academicians and professionals are continuously studying this global accounting standard waves across national boundaries. While some are looking at the challenges and issues of implementing, others (Blannchette et al. 2013; Fito et al. 2012; Kim, 2013; Lueg et al. 2014; Serkan et al. 2013; Stent et al. 2010; Tsalavoutas & Evans, 2010;) are empirically testing the impact of IFRS on accounting information quality and accounting valuation. Since European countries were the first to mandate IFRS, there are literature that documents its impact on financial statements (Christensen, Lee & Walker 2009, Lueg et al. 2014; Gaston et al. 2010; -UK; Fito et al 2012 – Spain; Serkan et al. 2013, Lantto & Sahlstron 2009-Finland; Tsalavoutas & Evans, 2010- Greece).

In an empirical investigation into the value relevance of information reported by Russian public firms, Kim (2013) found that leading Russian firms on London Stock Exchange that report in accordance with IFRS produce more value-relevant reports compared to their local peers that report under the Russian standards. On this basis, the study predicted that the mandatory IFRS adoption in Russia is likely to result in improved information quality.

With the help of financial ratios and accounting figures, Serkan et al. (2013), analysed the differences between local GAAP-based and IFRS-based financial statements and the effect of IFRS on financial reporting of 140 companies listed on the Istanbul Stock Exchange, Turkey. They revealed that the financial statements prepared in accordance with local GAAP and IFRS were statistically different. These significant differences were identified in inventories, fixed asset, long term liability and stockholders' equity accounts in the financial statements. This result is consistent with Fito et al. (2012) findings on the consequences of IFRS in Spain. Lueg et al. (2014) also find a substantial increase in profitability ratios in the UK due to the transition to IFRS. Similarly, in a study on both Spain and the UK, Gaston et al. (2010), found that IFRS adoption had a significant quantitative impact and is much higher in the UK. Lantoo and Sahlstrom (2009) argue that the changes in financial ratios after the adoption of IFRS in continental Europe is due to fair valuation and stricter requirements on some accounting issues.

Tsalavoutas and Evans (2010) employed Gray's comparability index to analyse the impact on IFRS on 238 companies in Greece. The study found that IFRS had a significant impact on the financial position and reported performance as well as on gearing and liquidity ratios. On average, the impact on shareholders' equity and net income was positive while the impact on gearing and liquidity was negative. However, the significant impact on liquidity and net income was experienced by companies with auditors other than the Big4 auditing firms. These companies also faced a significantly greater impact on gearing than companies with Big4 auditors. They also identify a large number of companies with material negative changes suggesting that transition to IFRS and the fair value option does not necessarily result in higher shareholders' equity figures as found in the studies of Jaruga et al. (2007).

A study by Blannchette et al. (2013) on the impact of IFRS in Canada reveals a striking difference in the balance sheet. Total assets in IFRS were less than half of the total assets in Canadian GAAP (CGAAP) for the company that has the largest negative difference in the sample examined and more than double the total assets in CGAAP for the company with the most significant positive difference. However, these differences are mostly offset in

shareholders' equity. Sales and operating revenues were reduced under IFRS compared to same items under CGAAP. Profit was high, and other comprehensive income (OCI) adjustments are predominately negative (losses). The study noted that the central values of IFRS financial statement figures and ratios are not significantly different from those derived under CGAAP.

Stent et al. (2010) found that the use of IFRS in New Zealand has led to a significant increase in liabilities and a decrease in equity for private sector entities. The authors attributed this to the adjustments to income taxes, employee benefits and financial instruments as the main reasons for increases in liabilities and decreases in equity.

Using Tobin's Q, Wang and Campbell (2012) analysed the effect of IFRS adoption on Chinese companies. Their study did not find significant differences in the mean and median of Tobin's Q after the implementation of IFRS. However there was a significant difference in the standard deviation. They concluded that year by year analysis of the variance failed to support the conclusion that IFRS caused the increase in the standard deviation.

Liu et al. (2011) examine the accounting quality from 2006 to 2010 following the mandatory IFRS in China. Their results indicate that accounting quality improved with decreased earnings management and increased value relevance of accounting measures in China since 2007. The improvement is less likely to be associated with changes in economic conditions but from the changes in the standards.

Similarly, ACCA (2013) found that, although earnings and book values of Chinese companies were valued relevant under the old CAS, earnings are significantly more-value-relevant under IFRS in A-share issuers. The relationship, however, depends on the level of incentives for a company to give accurate accounts. These findings contradict the common inference drawn from cross-country studies of mandatory IFRS adoption: (Daske, 2008) that IFRS can improve financial reporting only in countries with well-developed legal enforcement and investor protection.

Sarbapriya (2012) found that the total assets value and total equity per IFRS were all more than AS by 1.37% and 7.28% respectively while the total liabilities were less by 6% in 2008. However, in 2009, the total asset per IFRS was high by 1.94%, and total equity was also higher by 8.13%. However, the differences in the total liabilities reduce to 4.28% from 6% in 2008. There was not much deviations and fluctuations in the net income position as disclosed by financial statements of Wipro Ltd in IFRS reporting and Indian GAAP. Moreover, the



difference between total liability and equity is due to the reclassification of items. These results are consistent with Swamynathan and Sindhu (2011), who argue that IFRS is balance sheet oriented than the conservative Indian GAAP (AS).

The above discussions highlight the potential changes that IFRS bring to the financial statement. India, a family oriented business country, is expected to experience many changes in its reporting landscape after the implementation of stage 1 of IFRS because of the detailed disclosure and market-oriented nature of IFRS. Hence we anticipate that the accounting values and ratios of converged IFRS will be different from the local Indian GAAP.

## 4.0. Research Design.

### 4.1. Dataset.

Our population is Economic Times of India top 500<sup>1</sup> listed companies by sales in 2015/2016 financial year. From the 500 companies, financial institutions are eliminated because they are exempted from the mass implementation of Ind.AS. Out of the remaining 376 companies, 53 are excluded due to inadequate information. The final sample size is 323 representing 65% of the population.

Similar, to IFRS 1 (First-time adoption), Ind.AS 1 requires first-time adopters to present comparative figures for the prior year according. However, most companies provide two years of comparative figures as compared to a single year as done in other countries. That is companies that adopted Ind.AS in 2016/2017 have comparative figures for 2015/2016 and 2014/2015. This unique setting among the sample companies enriches the study by providing comprehensive two years data on the transition of accounting standards in India. Prior studies have demonstrated that empirical result varies differently among database due to differences in data contained in them (Callao et al. 2007). In the light of this argument and lack of a specific database on relevant variables, all data was hand collected from annual reports of the companies.

It is important to note that the selected items capture all relevant accounting figures spanning from income statement (revenue, net profit, EPS), balance sheet (Assets, liabilities, equity), ratios (return on assets, return on equity, net profit margin, current ratios).

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<sup>1</sup> We limit our population to this set because there are more than 5000 listed companies in India.

#### 4.2. Consequences of Ind.AS on accounting values.

Since India did not fully adopt IFRS, it creates three different set of accounting standards in comparison to other countries (IGAAP, Ind.AS, and IFRS). Therefore, we first analysed the impact of converged IFRS on the existing IGAAP, followed by an investigation into the differences between full IFRS and converged Ind.AS. As an extension of the study, we estimated the differences if India should have opted for full adoption of IFRS. We do this by comparing IGAAP with IFRS financial statements. This three set of investigation enables us to gauge the impact of convergence as well as anticipate if India goes for full adoption of IFRS. The empirical analysis was conducted using the Test of equality. F-test and T-test were used to test the hypothesis.

Findings from other countries such as Greece (Tasovlant 2011), UK (Lueg et al. 2014), Spain (Callao et al. 2007), indicate that adoption of IFRS does have a significant impact on accounting values and ratio. According to the ICAI and MCA, Ind.AS has been developed very closely to IFRS, saving certain exceptions that we have already explained. Therefore, we do not expect these results to be different from other countries. Hence, we test the following null hypothesis variables is:

*H<sub>1</sub>; There are no significant differences in the value taken by the variable Xi considering IGAAP and Ind.AS.*

Where Xi is every accounting figure or ratio considered including all relevant accounting figures spanning from income statement (revenue, net profit, EPS), balance sheet (Assets, liabilities, equity), ratios (return on assets, return on equity, net profit margin, current ratios). IGAAP is local accounting standard in India (AS), and Ind.AS are the new IFRS-converged standards in India.

Following from Fito et al. (2012) Lantos and Sahlstorm (2009), Lueg et al. (2014), we test our null hypothesis using the Wilcoxon sign ranked test. Aside following literature, we used the Wilcoxon signed-rank test because we compared variables for the same firms in the same period, but under different standards and the variables are not normally distributed. In our analysis, we also investigate the key individual items which are likely to cause the changes in the values and ratio. This approach enables us to provide in-depth analysis of standard by standard basis.

### 4.3. Analyses of the determinants.

After establishing the quantitative impact of Ind.AS on financial statements we evaluated whether these results are related to company characteristics. We derived our assumption from positive accounting theory (Watts & Zimmerman 1990) which states that companies behave differently due to their unique characteristics. To do this, we regress total equity adjustments on ownership type, shareholding, capital structure and auditor type. Our generalised null hypothesis is:

*H<sub>2</sub>. There is no significant association between the impact of Ind.AS on accounting values and company characteristics.*

We test this hypothesis with econometric estimations from this model for convenience the year (*t*) and country (*i*) index are removed.

$$|EA| = \beta + LEV + SH + FB + AT + TA + GW + POV + \epsilon t$$

Where *EA* is the net effect of Ind.AS on financial statements measured as total equity adjustment deflated by the total asset of the company. *LEV* is the capital structure of the company measured as the ratio of total debt to total capital (debt plus equity) under IGAAP. According to agency theory (Jensen and Meckling, 1976), high leverage is likely to lead to high disclosure as a means of building confidence in lenders. Although there are mixed results on the impact of leverage on disclosure (Cuijpers and Buijink, 2005, s Francis et al. (2008), we expect high debt financing companies to show large equity adjustments because positive adjustments strengthen the financial position of the company for better loan deals. Also the discounting of liabilities under Ind.AS enhances the positive net effect on the balance sheet.

*SH* is the shareholding structure of the company measured as the percentage of sharing of the top shareholder. Following Jensen and Meckling, (1976) agency theory, closely held companies are less likely to affect many changes on the balance sheet because top shareholders are preview to insider information. Also, such holders might not need to be convinced as compared to a large number of investors. Therefore, we expect an inverse relationship between the shareholding structure and the net effect of Ind.AS. *FB* take 1 if the business is a family-controlled and 0 if otherwise. Family-controlled business is defined as the percentage of shareholding by a single family in a company. A business is classified as family-controlled if largest shareholdings are in the hands of a single family. Following the findings of Abdullah et al. (2015), Haniffa and Cook (2009) of an inverse relationship between family business and disclosures we expect a similar relationship. *AT* is a dummy variable that takes on 1 if the firm

was audited by the Big4 or 0 otherwise. *TA* is a proxy for company size measured as a log of total assets. *GW*-goodwill is measured as the proportion of goodwill to total assets. Because of Ind.AS has a significant impact on goodwill due to fair valuation we expect a positive relationship between equity adjustments and goodwill. *POV*-provision is measured as the amount of both current and long-term provisions in the balance sheet. It is calculated as the total provision divided by the total asset.

We account for the impact of company size by deflating *EA*, *GW* and *POV* by the total asset of the company. The deflating also helps to reduce the impact of non-normality of the variables. All variables except for *EA* is calculated from financial statements as per IGAAP.

## 5.0. Results and Discussions.

### 5.1. Descriptive statistics.

Table 1.0 shows the descriptive statistics of financial statements for the year ending 2016 for both Ind.AS and IGAAP. It also includes the test for normality results using a combination of Skewness and Kurtosis (*SKtest*). All amount are expressed in nearest 10 million (crores) of Indian rupees except for Kurtosis, Skewness and *SKtest*.

Due to the difference in the financial performance of companies, sample data of financial statements are usually skewed and not normally distributed (see also Lueg et al. 2014; Lantto and Shahlstrom 2009). Based on the significant level (p-value 0.001) of the *SKtest*, we reject the null hypothesis that the data is normally distributed. Following the non-normality of the dataset, we employ the Wilcoxon Signed Ranked Test to approve whether there is a significant difference between reported figures of Ind.AS and IGAAP.

Before, proceeding to the non-parametric test, we calculate the percentage change of both the mean and median of the IGAAP and Ind.AS reported figures and the results are presented in table 2. This analysis indicates the direction of impact of Ind.AS on financial statements. Following from Lueg et al. (2014), median values provide a more accurate reflection in the case of non-normal distribution. Therefore, our discussion is focused on the median values.

### 5.2. The difference in balance sheet items

Fair valuation under Ind.AS in business combination causes a significant decrease in goodwill. According to IGAAP (AS 14), the identified assets of acquiree are measured at book value which results in high goodwill whereas Ind.AS 103 requires fair valuation which is likely to reduce the goodwill. Under IGAAP, the acquirer amortises goodwill over the period for

which the company expects to receive benefits from the synergies. However, under Ind.AS goodwill is not amortised but is tested for impairment at least annually. Contrary to prior expectation and literature that IFRS increase assets due to fair valuation, in India, there was no significant increase in assets. Because most companies measured their assets using level 3 inputs of fair value hierarchy or cost model as there is inadequate data for level 1 and 2 fair value measurement. These findings are contradictory to Gaston et al. (2010) Lueg et al. 2014; who concluded that IFRS increase assets due to the fair valuation. Based on these findings we argue that the theoretical difference between IGAAP and Ind.AS on assets measurement has not reflected on the financial statement due to alternative measurement and partially to unavailability of market information.

The significant increase in total equity can be attributed to the difference in recognition of proposed dividend. Contrary to IGAAP (AS 4), Ind.AS 10 does not allow the deduction of proposed dividend until it is declared. However, the non-recognition of proposed dividend per Ind.AS 10 decreases current liability and hence total liability. According to IGAAP (AS 4), the proposed dividend must be recognised as a current liability whereas Ind.AS disallow the recognition of proposed after reporting period as a liability in the financial statements. Our result is opposite to Godwin et al. (2009) and Luge et al. (2014) who found an increase in current liability in Australia and the UK respectively.

The median values of non-current liabilities show a significant decrease by 11% (p-value 0.023) due to the difference in deferred tax computation and discounting of long-term provision. Unlike IGAAP (AS 27) where deferred tax is computed for all timing difference with regards to accounting and tax profit, Ind.AS 12 required deferred tax computation on temporary differences arising from carrying amount of assets and liabilities in the balance sheet. Also Ind.AS 37 requires discounting of long term provision, however, IGAAP (AS 29) requires reporting of full nominal value without discounting. The significant impact of Ind.AS is the recognition of provision (both current and non-current). As presented in table 2, the median value of provision decrease by 58% at a significant level of 0.000. This decrease is driven by non-recognition of proposed dividend and the discounting of long-term provision.

### 5.3. The differences in income statement items

There is no significant impact of Ind.AS on revenue and net profit, which is also reflected in the net profit margin ratio. However, there is a significant change in the earnings per share (EPS) due to the reclassification of extraordinary items, actuarial gains/losses on employee benefits and reversal of amortised goodwill. Whereas, IGAAP allows the presentation of

extraordinary items, Ind.AS prohibit extraordinary items. Which means all items are presented as ordinary causing changes in the earnings. Under IGAAP goodwill is amortised while goodwill is tested for fair valuation per Ind.AS.

#### 5.4. Differences in ratios

Since the difference in the current assets is not high and significant, we attribute the significant positive increase in current Ratio to the significant decrease in current liabilities. Luge et al. (2014) also found that a significant change in current liability caused changes in the current ratio. However, Luge et al. (2014) and Godwin et al. (2009) showed an increase in current liability after the adoption of IFRS in the UK and Australia respectively.

Due to the significant decrease in total assets and an increase in equity, without significant change in the net profit, there is a significant increase in the ROA. Contrary, there is a decrease in ROE due to non-recognition of proposed dividend which increases equity under Ind.AS. Therefore, it can be concluded that the significant increase in ROA and decrease in ROE is as a result of the decrease in total assets and increase in equity respectively largely because of accounting for goodwill and non-recognition of proposed dividends, among others.

*Insert table 1.0 Descriptive statistics (2016 IGAAP and Ind.AS) n=323*

*Insert table 2.0 2016 analyses on IGAAP and INDAS (n= 323)*

#### 5.5. Robustness check (Using 2015 financial statements).

India provides a unique opportunity for analysing the two-year effect of IFRS convergence because most companies prepare three years of comparative balance sheets as part of Ind.AS transition process. To check the validity and robustness of our results we repeat the analysis using 2014/2015 financial statements. Our objectives here is to test whether the impact of Ind.AS is the same with retrospective effect. That is re-stated figures of 2014/2015 Ind.AS is compared with IGAAP of the same year. Because we did not find any significant changes in the income statement items (revenue and net profit) in the 2016 analysis, we focus on the balance sheet items in the 2015 analysis.

Consistent, with the 2016 analysis, the decrease in the median value of goodwill is very high (-38%) and significant (p-value 0.000). Similarly, there is a significant decrease in current liability but not the same magnitude as in 2016 reported figures. The current ratio also reflects the 2016 pattern of the increase due to a decrease in the current liabilities.

Both 2016 and 2015 analyses show that IFRS convergence in India causes significant changes in goodwill and provisions. The 2015 results confirm the robustness of our approach in testing the impact of IFRS convergence in India.

*Insert table 3.0 2015 analyses on IGAAP and INDAS (n=301).*

#### 5.6. What if India Adopted IFRS or adopt IFRS in the future.

Although India has not fully adopted IFRS, with time, the country will go for full adoption. Therefore, using a sample of 20 companies which have financial statements for IGAAP, Ind.AS and IFRS, we conduct additional analyses on the impact of full adoption of IFRS on Indian companies. It is obvious that IFRS will bring similar changes as Ind.AS has done. In Table 4.0 the direction of change between IGAAP and IFRS is consistent with that of the changes between IGAAP and Ind.AS in Table 2. This confirms how Ind.AS has bridged the gap between IGAAP and IFRS. However, the difference between Ind.AS and IFRS indicate that convergence is not equivalent to full adoption.

For all the variables under consideration, the median difference under Ind.AS, IGAAP and IFRS is less than 4%. The difference between IFRS reported a net profit, EPS and that of Ind.AS is due to the recognition of actuarial gains/loss in profit loss by IFRS and in OCI by Ind.AS (IAS 19/Ind.AS 19). For total equity and ROE, the change is caused by the measurement and recognition of investment property. Ind.AS account for investment property using only the cost model, but both cost and fair value options of accounting are available under IFRS.

#### 5.7. Results on the determinants of equity adjustments

This section reports the findings of the multivariate analysis on determinants of the extent of equity adjustments due to the implementation of Ind.AS. Table 6 presents the results of the regression estimation using the total equity adjustments (EA) score as the dependent variable. We use data from 2015 financial statements to, test whether the main findings were robust against a change in the year of reporting. We replicated all relevant empirical tests. As presented in the M1 column, the results are identical to M2. Also, the  $R^2$  is similar across the models. Hence our model and variable are robust in explaining why Ind.AS impact differently among companies (see Glaum et al. 2013). The F-statistics of 23.41 (21.51) at  $p < 0.001$  indicates that the models are well specified.



As seen in table 6, all the variable of interest namely debt, financing, shareholding, ownership type and auditor type are significant determinants of the amount adjustments a company will disclose. The coefficient of SH is negative and significant as expected, indicating that companies with concentrated shareholding are less committed to giving more information. The results chimes with both agency and positive accounting theory that companies with single large shareholding exercise control on the extent of adjustments.

Concerning family-controlled businesses and the extent of equity adjustments, the results in Table 6 shows a significant negative relationship between FB and EA. Thus, family-controlled companies are less likely to reflect most of the Ind.AS adjustments on the face of the balance sheet. Our results support Abdullah et al. (2015) and Chen et al.'s (2008) argument that family business is more likely to tilt firms disclosure towards their preference.

The results on LEV suggest that companies with high leverage are more likely to disclose huge adjustment on its balance sheet. This is because the fair valuation of assets shows an increase in assets, which increase the value to offset its high leverage. Moreover, high debt financing companies experience more adjustments because they require disclosure to build confidence in both existing and prospective lenders who are predominantly external as compare to some equity holders who can be internal. Our results are consistent with Al-Akra et al. (2010),

As expected, the Big4 auditors provide high-quality audit than non-audit firms. Also, they have the resources to provide market-based measurement as required by Ind.AS. This result chimes with Samaha and Stapleton (2009) Karim and Ahmed (2005), in respect to the significant positive relationship between international auditors and IFRS compliance (see also Al-Akra et al. 2010; Appiah et al. 2016)

The results on both goodwill (GW) and provision (POV) are consistent with our prior analysis on the impact of Ind.AS on accounting values. Thus companies with a high amount of goodwill will experience a huge impact on equity adjustments. Similarly companies with provision before the adoption of Ind.AS experience increase in adjustments.

*Insert Table 6 here.*

## 6.0. Conclusion

This paper provides evidence of the impact of IFRS convergence on accounting values in India. A country which is uniquely different from prior research sites due to its business practices and IFRS adoption timelines. Specifically, we have documented how convergence to IFRS affected



accounting values, including an investigating into the difference between full IFRS and converged IFRS reported figures. We also perform an analysis between IGAAP and IFRS financial statements to estimate the impact if India had gone for full adoption. We carried out a regression analysis to understand the behaviour pattern of companies towards first-time adoption adjustments.

Although, there was a high expectation that the convergence to IFRS will bring massive changes to the financial statements (Rekhy, 2015) due to findings from other countries: China-ACCA. (2013), UK-Lueg et al. (2014); Malaysia-Marzuki and Wahab (2016), Turkey-Serkan et al. (2013), our results indicate less impact with only three items that are significantly affected (goodwill, current liabilities and extraordinary items). First, contrary to prior literature that IFRS increase total assets because of fair valuation, in India, a significant decrease in goodwill cause decrease in assets. Also, there was an insignificant impact on other assets because companies used level 3 inputs or cost model. Second, we found a significant decrease in both current and long-term liabilities due to non-recognition of proposed dividend and discounting of long term provision under Ind.AS. These decrease in current liability resulted in a significant positive increase in the current ratio. Similarly, we found that the significant increase in ROA and decrease ROE were due to a decrease in total assets and an increase in equity. Third, there was a significant change in earnings per share due to the reclassification of extraordinary items, actuarial gains, long term employee benefits and reversal of amortised goodwill.

Like the 2016 analysis, there is a significant decrease in current liabilities of 2015 financial statements which reflected a decrease in current ratio. However, the significant decrease in goodwill in 2015 cause a reduction in total assets is lesser than that of 2016. Both 2016 and 2015 analysis shows that the convergence IFRS in India causes significant changes in reported figures, especially on balance sheet items.

Our study is relevant to users of Ind.AS financial statements especially, regulators, standard setters and investors concerned with the impact of the convergence on accounting values and the behaviour patterns of companies. Ind.AS increases goodwill valuation but a decrease in the provision, current liabilities with a positive impact on total equity adjustment. The amount of total equity adjustment is subject to the company's characteristics such as leverage, level of family control, type of auditor and ownership structure.

Although Ind.AS is closely aligned with IFRS, our analysis on Ind.AS and IFRS shows that international analyst and investors should be aware that, there are significant differences between IASB IFRS and India converged IFRS. For instances, the difference in recognition of

actuarial gains/loss on employee benefits and measurement of investment properties can cause changes in EPS between Ind.AS and IFRS statements.

Our study also complements the works of Fitó, et al. (2012); Lueg et al. (2014), Lantto and Shahlstrom (2009), by providing evidence on the impact of IFRS in family business oriented and emerging economy.

The generalisation of this study is limited due to the following. First, our data exclude financial companies because they are yet to implement Ind.AS. Second, due to the unavailability of data, not all phase 1 companies were included in the sample. Third, readers must know that phase 1 companies are large listed companies with a net worth of 500 crores, or more hence this study excludes medium and small companies. We, therefore, suggest that further studies should explore the impact on small and medium listed companies as and when they implement Ind.AS.

*Insert table 4.0 Comparison of IGAAP/IFRS, INDAS/IFRS*

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