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ADOPTION OF IFRS IN INDIA: THE PERCEIVED IMPLICATIONS ON INVESTMENT FROM FOREIGN INVESTORS

K.S. Upendra Wagle[*] & Dr. Umesh Maiya[**]

** Research Scholar, Bharathiar University, Coimbatore.*
*** Assistant Professor and M.Com Co-ordinator,*
Dr.G.Shankar Govt. Women's First Grade College and P.G. Study Centre, Ajjarkadu, Udupi.

*** Corresponding Author*

ABSTRACT

The IFRS adoption in India is hot subject due to its global acceptance, comparability and reliability of financial statements. This paper studied the relation between IFRS adoption and foreign investment. The population for the study is consists of practicing and employed chartered accountants. Random sampling method was adopted and primary data obtained from 215 responses. Results of study indicates that IFRS adoption in India will potentially to be beneficial to a wide range of stakeholders. Better access to and reduction in cost of capital raised from global market accepted as financial reporting frame work for companies. Adoption of IFRS resulted in better quality of financial reporting and resulted in increase in foreign investment.

Keywords: *Foreign investment, IFRS, Accounting Standards, Financial Reporting System*

INTRODUCTION

Increasing growth of international trade made necessary in India to adopt global accounting standards. IFRS being principle based standard, relevance of its adoption have always been a subject of intense controversy.

The adoption of IFRS has expectation that there would be a significant influence upon the measurement and disclosure of financial statement components. The quality of information under IFRS reporting is indispensable to the need of users who requires them for investment and other decision making. Implementation of IFRS reduces information irregularity and strengthen the communication link between all stakeholders.

The application of IFRS itself is not a generator of economic development, as the paper disclosures does not create value unless the information has been used in economic decisions. IFRS, being globally accepted, contribute to the functioning of international capital market and of global financial capitalism.

The study seek to contribute to the literature on IFRS by exploring view of accounting practitioners regarding how well the IFRS introduction is linked with increase funding from foreign countries.

RESEARCH OBJECTIVE

The objective of this study is to find out how far adoption of IFRS India is relevant while getting investment from foreign investors.

RESEARCH METHODOLOGY

Both primary and secondary data have been used for this research. Random sampling technique was used to distribute the questionnaire. Four structured questions were used to get the opinion of population. The population of this study consists of chartered accountants who involved in implementation of IFRS. These chartered accountants were actively engaged in implementations and analysis of financials under IFRS and Indian GAAP. Samples of 215 chartered accountants were selected

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randomly. Out of 215 respondents 115 respondents are practicing chartered accountants and 100 respondents are employed chartered accountants. Likert scales with five options were used to option the opinion of chartered accountants. The options used were a) Strongly agree b) Agree c) Neutral d) Disagree e) Strongly disagree. Distinctions were drawn between practicing and employed chartered accountants for testing the reliability of study. Pearson's Product Moment Correlation Co-efficient was used for data analysis.

HYPOTHESIS

H_0: There is no significant relation between IFRS adoption and investment from Foreign Investors.

H_1: There is significant relation between IFRS adoption and investment from Foreign Investors.

SCOPE

Some researchers refer to the advantage of adopting IFRS in the developing countries whereas others are concerned about diversity in cultural and environmental factors would be detrimental to the adoption advantages. The study is based on perception of chartered accountants who practically involved in implementation of IFRS. The study was confined to Karnataka State.

LIMITATIONS

Findings drawn on the basis of the respondents' response and the conclusions drawn cannot be generalized with other states of the country.

SIGNIFICANCE OF STUDY

The study is relevant for the entities which has not adopted IFRS and has intention to get the funding from foreign countries. Study helps them to understand how adoption of IFRS is relevant while attracting funds from foreign investors.

REVIEW OF LITERATURE

Globally, the existing literature regarding IFRS is quite extensive However, in India, being a new subject, very few studies has been conducted so far.

Akintola Owolabi (2012), in his study found that, in Africa, preparers and users differ in their opinion as far as challenges of the adoption of IFRS. But they have unanimous opinion training will be the lease challenge while adopting IFRS.

Nicholas L Pawsey (2008), Australian author, in his study found that majority of participants agreed that financial reporting under IFRS is more complex than reporting under previous AASB Standards. Compared with previous AASB standards, IFRS viewed as involving greater uncertainty, being more time consuming and requiring higher audit and external consultancy fee.IFRS are more criticized on rather than complemented.

Chistian Carini, Claudio Teodori (2011) in his study in Scotland found that majority (47%) of respondents believe that IFRS permit a better presentation of equity and profit and provide better predictive ability to users. 44% believe that the IFRS do not reduce importance of the financial statement to creditors. A limited percentage (35%) believes that the IFRS provide a better analysis of company performance.

According to Ray Ball (2006), a system based on IFRS not only better reflects the economic substance of transactions than their legal form, but it also reflects economic gains and losses in a more timely or appropriate manner. In addition, still according to Ball (2006), such a system makes the results more informative, it allows providing better accounting information and reduces the discretion that the traditional accounting system existing in Continental Europe provided managers with in order to manipulate provisions, create hidden reserves, embellish outcomes, and conceal economic losses.

According to Philip Brown (2013) argued in favour of IFRS adoption and says that potential benefits from adopting IFRS are still to be researched. Examples are the influence of IFRS on the depth of professional skills, accounting education, labour market mobility, business opportunities for financial institutions and professional accounting firms, and better outcomes resulting from improved compliance monitoring and enforcement that have gone hand-in-hand with the adoption of IFRS.

Hail L Leuz. (2010) have analyzed the possible adoption of IFRS in the U.S. and concluded that the adoption involves a commitment between: (i) transition costs for companies (ii) positive effects related to comparability and (iii) reporting cost reductions, mainly obtained by multinationals.

Peter F. Pope and Stuart J. McLeay (2011) research suggests that firms and users do benefit from IFRS adoption. But by no means all firms or all users benefit. The results from research are typically "on average" results and there is much information yet to be discovered by trying to better understand the world behind the observed average effects. The insight provided from recent research into the roles of legal and economic institutions in determining financial reporting outcomes is only one example of how research can help develop better understanding. Future work might consider further the importance of firm-level incentives and constraints such as corporate governance mechanisms and how they interact with properties of available financial reporting systems. It might be that the recognition, measurement and disclosure requirements of IFRS are not optimal for all types of firms and all stakeholder groups in all countries.

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Ulf Brüggemann, Jorg and Thorsten (2013) also analyzed studies on IFRS adoption in the EU, but they consider three categories of consequences in financial reporting in the capital market and those with a macroeconomic nature. These authors also introduce the distinction between intended and unintended economic consequences, depending on whether they are related to regulator's stated objectives. They concluded that IFRS had a limited effect on financial reporting, due to a substantial non-compliance, persistence of national accounting standards of choice, and absence of improvement regarding transparency of outcomes and comparability measurements. On the other hand, they detected strong evidence that mandatory IFRS adoption brought macroeconomic benefits and benefits for the capital market.

FINDING OF THE STUDY

Table 1: Response on key issues relation to relation between IFRS adoption and cash inflow from foreign investors from practicing CA's

SN	Questions	Practicing Chartered Accountants					
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
1	IFRS makes countries to be consistent on financial reporting which improves	53	47	13	1	1	115
		46%	41%	11%	1%	1%	100%
2	IFRS has improved the comparability of financial statements	45	48	12	8	2	115
		39%	42%	10%	7%	2%	100%
3	IFRS facilitate investors decisions in capital market by providing high quality information	31	45	31	7	1	115
		27%	39%	27%	6%	1%	100%
4	IFRS improves the companies the access to financial markets by having the financial statements prepared under global reporting standards.	43	55	11	5	1	115
		37%	48%	10%	4%	1%	100%

Source: Field Survey data

Table 2: Response on key issues relation to relation between IFRS adoption and cash inflow from foreign investors from Employed CA's

S.N	Questions	Employed Chartered Accountant's					
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
1	IFRS makes countries to be consistent on financial reporting which improves	55	32	10	3	0	100
		55%	32%	10%	3%	0%	100%
2	IFRS has improved the comparability of financial statements	55	29	14	2	0	100
		55%	29%	14%	2%	0%	100%
3	IFRS facilitate investors decisions in capital market by providing high quality information	30	44	24	2	0	100
		30%	44%	24%	2%	0%	100%
4	IFRS improves the companies the access to financial markets by having the financial statements prepared under global reporting standards.	53	32	13	2	0	100
		53%	32%	13%	2%	0%	100%

Source: Field Survey data

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Table 3: Calculation of correlation

Options	Practising CA					Employed CA				
	Rank (x)	Response (y)	xy	x2	y2	Rank (x)	Response (y)	xy	x2	y2
Strongly Agree	5	43	215	25	1849	5	53	265	25	2809
Agree	4	55	220	16	3025	4	32	128	16	1024
Neutral	3	11	33	9	121	3	13	39	9	169
Disagree	2	5	10	4	25	2	2	4	4	4
Strongly Disagree	1	1	1	1	1	1	0	0	1	0
Total	15	115	479	55	5021	15	100	436	55	4006

Source: Field Survey data

Table 4: Calculation of correlation (Average)

Options	Average Rank (x)	Average Response (y)	xy	x2	y2
Strongly Agree	5	48	240	25	2304
Agree	4	43.5	174	16	1892.25
Neutral	3	12	36	9	144
Disagree	2	3.5	7	4	12.25
Strongly Disagree	1	0.5	0.5	1	0.25
Total	15	107.5	457.5	55	4352.75

Source: Field Survey data

Testing of Hypothesis by using Pearson's Equation

$$r = \frac{N\sum xy-(\sum x)(\sum y)}{\sqrt{\left[N\sum x^2-(\sum x)^2\right]\left[N\sum y^2-(\sum y)^2\right]}}$$

Where N= 5, ∑x = 15, ∑y = 107.5, ∑x2 = 55, ∑y2= 4352.75, ∑xy = 457.50

(5 x 457.50) - (15 x 107.50)
r = --
√ [(5 x 55 - (15)2)] [(5 x 4352.75 - (55)2)]

r= 0.70 i.e.70%

Decision:

Calculated r = 0.70 is greater than 0.50. The alternate hypothesis is accepted. There is significant positive relation between IFRS adoption and investment by foreign investors.

CONCLUSIONS

Based on an extensive literate review, it has been found that very few studies has happened on IFRS by Indian authors. Secondly before making IFRS compulsory in India, only a few entities such as subsidiaries of foreign entities voluntarily adopted IFRS. In the absence availability of IFRS balance sheet in India, it is challenge to substantiate costs and benefits of adoption in India. The study has provided evidence of the adoption of IFRS helps the Indian companies in attracting investment from foreign countries. The attraction of foreign investment are largely driven by the number potential success factors of entities. Adoption IFRS in only a media to provide required information and data for understanding various success factors and so the right decision can be done by the investors.

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