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Convergence with IFRS: Evidence from Financial Statement

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Abstract

A strong case for convergence can be made from the viewpoint of investors who wish to invest outside their own country. Investors need information that is more relevant, reliable, timely and comparable across the jurisdictions. Global reporting language in the form of IFRS is expected to facilitate the comparability of the enterprise with not only its national competitors but global peers as well. Multinationals having global operations in IFRS driven countries will find cost savings by having all their business units/investments on a common accounting platform. The study disclose that the sampled respondents considered all factors of benefits to investors as highly important and among all these factors, the factor 'easiness in comparison of a peer group of companies' financial statement' (4th factor), 'better information for decision making' (1st factor), 'more confidence in information presented' (2nd factor) and 'better understanding of risk and return' (3rd factor) are considered key beneficial factors across independent variables of sampled respondents. The study helps to make proper planning for those companies which are going to prepare and present their financial statements as per IFRS.

Keywords: *IFRS, Reporting standards and convergence process*

1. Introduction

IFRS, being principle based standards, are expected to provide many benefits in different ways to economy, companies/industries and investors. It is felt that these will benefit the economy by increasing the growth of international business and international investing in the form of more foreign capital inflows into the country. Now, investors want more relevant, reliable, timely and comparable information across different jurisdictions. IFRS would serve to enhance the comparability between financial statements of various companies across the globe. The industry would be able to raise capital from foreign markets at lower cost if they are able to create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. It would provide professional opportunities to serve international clients and increase their mobility to work in different parts of the world. As already mentioned, the IFRS are rules based, measure all assets and liabilities at fair value and enhance the accuracy and reliability of financial statements. Additionally, the early adoption of IFRS is also claimed to enhance the brand value of the companies which enable them to enlist and trade their shares and securities on stock exchanges world-wide.

A strong case for convergence can be made from the viewpoint of investors who wish to invest outside their own country. Investors need information that is more relevant, reliable, timely and comparable across the jurisdictions. Financial statements, which are prepared using a common set of accounting standards help the investors in better understanding of investment opportunities as opposed to financial statements prepared using a different set of national accounting standards. Global investors have to incur high cost in terms of the time and efforts to convert the financial statements so that they can confidently compare opportunities. Investors' confidence would be stronger if the used accounting standards are globally acceptable. Global reporting language in the form of IFRS is expected to facilitate the comparability of the enterprise with not only its national competitors but global peers as well. Multinationals having global operations in IFRS driven countries will find cost savings by having all their business units/investments on a common accounting platform.

It is noticed that benefit to investors is a combination of six issues such as better information for decision making, more confidence in information presented, better understanding of risk and return, easiness in comparison of a peer group of companies' financial statements, more timely financial reports and time saving in analyzing financial reports. The statistical results and independent variable wise analyses with respect to these six factors of benefits to investors are carried out in succeeding paragraphs.

2. Review of Literature

This section briefly reviews some recent empirical studies conducted to examine the impact of IFRS on the financial statements of companies, investors and economy.

Jermakowic (2004) examined the adoption of IFRS by BEL-20 companies in Belgium. The study encompassed the benefits and challenges of the adoption of IFRS, the level of understanding and experience with IFRS, impact of IFRS on consolidated equity and net income of the selected companies and the perception of the quality of IFRS. The results of the survey revealed that the BEL-20 companies were implementing the new accounting regime which is not widely known and understood. This study indicated that the task of implementing IFRS and maintaining different accounting systems for individual and consolidated accounts is complex and costly. **Goodwin and Ahmed (2006)** examined the impact of Australian equivalents to international financial reporting standards (A-IFRS) on the accounts of small, medium and large-sized firms. The study noted that the transition to A-IFRS has not been onerous for small firms. Most of the small firms were unaffected by A-IFRS and those that were affected had fewer changes to make to net income and to equity than both medium and large-sized firms. Results of the study also indicated that the average small firm had a net income and equity increase from A-IFRS.

Lantto (2007) investigated whether IFRS improved the usefulness of accounting information in a code-law country that had a strong system of legal enforcement and high quality domestic accounting standards. The empirical study was based on three surveys i.e. survey of financial analysts, managers and auditors. The results indicated that IFRS improved the relevance of accounting information in Finland. The researcher suggested for further investigating the reasons for perceptions of the reliability of information prepared in accordance with IFRS. **Praveen (2009)** explored all those challenges which would arise in front of India during transition to IFRS. The study revealed that there were several challenges like conceptual difference in Indian accounting standards and IFRS, difference in determing depreciation, change the pattern of revenue recognition under Indian standards and IFRS and treatment of goodwill was also different in both Indian standards and IFRS etc. It was concluded that though challenges were immense, yet the need of hours was to understand the requirements of the changing scenario, where multi-location presence was very common and the term 'global village' was being used more than often.

Dholakia (2012) identified and evaluated the impact of IFRS on company's financial position and performance of the financial year. The study was also revealed the individual standards and its effect on shareholders' equity. The study showed that there was a significance differences in the opinion of respondents belong to different level of educations and age regarding IFRS adoption. **Panchal (2012)** explored the likely opportunities and challenges to be faced by Indian industries and provided some suggestions for successful implementation of IFRS. The study revealed that implementation of IFRS required some changes in formats of accounts and their disclosures. The researcher argued that all concerned parties need to share the responsibility of international harmonization and convergence. **Rai (2012)** studied the problems and challenges faced by Indian companies in the process of convergence with IFRS. The study also focused on the measures taken to address the challenges. It was concluded that the measures taken by ICAI and the other regulatory bodies to facilitate the smooth convergence to IFRS are commendable and gave the positive idea that the country was ready for convergence. Furthermore, it was also disclosed that the need was to have a systematic approach to make the organization and the investors ready for the change and the standards ready for renovation. Corporate needs to gear them for constant updating and not only for the first time adoption.

2.1 Research Objectives

The major objective of this study is to find out the opportunities in terms of gains from convergence of IGAAP with IFRS to Investors.

Hypothesis

One hypothesis is developed on the basis of above objective which is here-in-under.

1. That pre and post convergence benefits to investors will not significantly differ from each other.

3. Research Methodology

To accomplish the above objective, a structured questionnaire was administered to sampled CAs for collecting information. A five point Likert type scale (Strongly agree, Agree, Undecided, Disagree and strongly disagree) was used in the questionnaire. The sample consists of two hundred Chartered Accountants (CAs), having imperative knowledge on IFRS. The responses from respondents were coded and tabulated in SPSS 16.0. For analyzing the data, mean, standard deviation (SDs), t-test and F- test were used. The tests were conducted at five (5) percent level of significance. To measure the highly important issues among all issues, we used mean and standard deviation. The t-test was used to measure the gender-wise differences and their effects on perception about these issues. Here we used F-test for measuring the differences across nature of jobs and years of experience.

4. Results & Discussions

The section of the paper covers the results based on primary data to achieve the research objectives.

Table 1 illustrates means, SDs and p-values of the responses towards all beneficial factors allied with convergence process. The results disclose that maximum number of respondents (388) agree/strongly agree to the fact that convergence with IFRS provide better information to investors for decision making. This is due to the fact that IFRS based financial statements will provide more accurate and relevant information. Due to common reporting system adopted by all entities, it will also help in comparison and benchmarking of financial data with international competitors. The mean values exhibit that, 'investors can compare a peer group of companies' financial statements' (4.35), 'better information for decision making' (4.33), 'more confidence in information presented' (4.11) and 'better understanding of risk and return' (3.93) are the major factors of benefits of this convergence process in this order. In addition to this, all beneficial factors ascribed to convergence process are considered worthwhile by the sampled respondents as all have mean rank more than neutral value (3). Thus, we can consider these factors as major beneficial factors for Indian corporate sector. Substantially, the results also depict that all factors of benefits present significant difference with respect to neutral value 3. It infers from these results that convergence with IFRS offer several benefits to the investors.

Table 2 discloses the gender-wise differences between male and female and their effect on all the factors of benefits of this convergence process. The table depicts means, SDs and the results of t-test for all these factors with respect to gender. It can be seen from the table that the females have an edge over the males with respect to all factors except the one i.e. save time in analyzing financial reports. The table further shows that there is no significant gender difference for all the factors of benefits to investors with respect to gender. From this analysis, it is evident that the results with respect to male and female respondents are consistent with respect to all the factors of benefits to investors.

Table 3 reveals the age-wise analysis with respect to beneficial factors to investors and infers that the factor 'investor can compare a peer group of companies' financial statement' (mean 4.37) and the factor 'better information' (mean 4.30) are major beneficial factors considered by all respondents irrespective of different categories of age groups. The main effect of age wise analysis is noted as significant only with respect to the factor 'more confidence in information presented' (2^{nd} factor), while the results with respect to other factors are not significant. These results disclose that despite seemingly differences across all these factors, the significant differences have arisen only for the factor 'more confidence' (2^{nd} factor) for different categories of age groups of respondents.

Table 4 presents the nature of job wise analysis with respect to all these factors of benefits to investors. The mean values show that the respondents belonging to self practices, employed in audit firms and employed in industry have almost same opinion about all the factors and considered the factors 'investors can compare a peer group of companies' financial statements' (4^{th} factor), 'better information for decision making' (1^{st} factor), 'more confidence in information presented' (2^{nd} factor) and 'better understanding of risk and return' (3^{rd} factor) as highly important among all the factors. In addition to this, the value of f-test shows that no significant difference exists for any factor at five percent level of significance among all the respondents belonging to the different natures of the job. From the results, it construes that notwithstanding the difference across the factors of benefits, the significant differences have not been obtained for any single factor with respect to the different nature of jobs of respondents. The same trend can be seen for all the factors of benefits to investors among the responses of respondents belonging to different areas of specialization and different years of experience given in Table 5 and 6. Beside this, the result of f-test depicts that among all factors; only the factor 'more confidence in information presented' presents significant difference at five percent level of significance with respect to different years of experience of respondents. It shows that the results for different categories of specialization and different years of experience of respondents are consistent with respect to all these factors of benefits.

By implication, it concludes that the sample respondents considered all factors of benefits to investors as highly important and among all these factors, the factor 'easiness in comparison of a peer group of companies' financial statement' (4^{th} factor), 'better information for decision making' (1^{st} factor), 'more confidence in information presented' (2^{nd} factor) and 'better understanding of risk and return' (3^{rd} factor) are considered key beneficial factors across independent variables of sampled respondents.

5. Conclusion

Indian reporting practices will be significantly affected by this convergence process. Thus, it is required for Indian corporate world to harmonize with these new standards. This harmonization process would bring a lot of benefits to Indian companies, investors, regulators and accounting professionals etc. Therefore, Indian companies should harmonize Indian accounting standards with IFRS. It concludes that the sample respondents considered all factors of benefits to investors as highly important and among all these factors, the factor 'easiness in comparison of a peer group of companies' financial statement' (4^{th} factor), 'better information for decision making' (1^{st} factor), 'more confidence in information presented' (2^{nd} factor) and 'better understanding of risk and return' (3^{rd} factor) are considered key beneficial factors across independent variables of sampled respondents.

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Table 1: Means, SDs and P-Values of Factors of Benefits to Investors

Factors of benefits	N	Mean	SD	p-value	SA	A	UD	DA	SDA
Better inter- company comparison of financial statements	400	4.39	0.71	0	196	176	19	7	2
Better information for decision Making	400	4.33	0.58	0	149	239	8	3	1
More confidence in information presented	400	4.11	0.74	0	117	229	36	18	0
Better understanding of risk and Return	400	3.94	0.85	0	103	195	80	18	4
Easiness in comparison of a peer group of companies' financial statements	400	4.36	0.72	0	185	185	19	9	2
More timely financial report	400	3.64	0.95	0	72	171	100	55	2
Time saving in analyzing financial reports	400	3.77	1.05	0	94	197	41	57	11

Table 2: Gender-wise Attribution for the Factors of Benefits to Investors in Convergence Process

Factors of Benefits	Gender	N	Mean	SD	T	sig.
Better information for decision making	Male	295	4.33	0.60	-0.07	0.94
	Female	105	4.33	0.53		
More confidence in information presented	Male	295	4.10	0.74	-0.49	0.62
	Female	105	4.14	0.74		
Better understanding of risk and return	Male	295	3.92	0.85	-0.61	0.54
	Female	105	3.98	0.86		
Investors can compare a peer group of companies' financial statements	Male	295	4.33	0.76	-1.22	0.22
	Female	105	4.43	0.60		
More timely financial report	Male	295	3.62	0.94	-0.58	0.56
	Female	105	3.69	0.97		
Time saving in analyzing financial reports	Male	295	3.77	1.02	0.14	0.88
	Female	105	3.75	1.13		

Table 3 Age-wise Attribution for the Factors of Benefits to Investors in Convergence Process

Years	**20-30**			**30-40**			**40-50**			**Above 50**			**Total**			**Test**	
Factors	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	F	Sig.
Better information for decision making	131	4.30	0.55	167	4.39	0.55	65	4.34	0.67	37	4.16	0.65	400	4.30	0.60	1.76	0.15
More confidence in Information presented	131	3.98	0.74	167	4.13	0.75	65	4.18	0.77	37	4.41	0.55	400	4.17	0.70	3.67*	0.01
Better understanding of risk and return	131	3.87	0.84	167	3.96	0.90	65	4.00	0.87	37	3.95	0.62	400	3.95	0.81	0.44	0.72
Investors can compare a peer group of companies' financial statements	131	4.34	0.71	167	4.36	0.76	65	4.31	0.75	37	4.46	0.51	400	4.37	0.68	0.36	0.78
More timely financial report	131	3.54	0.96	167	3.67	0.93	65	3.74	0.94	37	3.68	0.97	400	3.66	0.95	0.78	0.51
Time saving in analyzing financial reports	131	3.73	1.07	167	3.83	1.02	65	3.69	1.12	37	3.76	0.98	400	3.75	1.05	0.36	0.79

*Significant difference at five percent level.

Table 4: Nature of Job -wise Attribution for the Factors of Benefits to Investors in Convergence Process

Nature of Job	**Self practices**			**Employed in audit firm**			**Employed in industry**			**Total**			**Test**	
Factors	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	F	Sig
Better information for decision making	137	4.35	0.68	140	4.33	0.47	123	4.31	0.57	400	4.33	0.58	0.16	0.85
More confidence in information presented	137	4.08	0.78	140	4.12	0.67	123	4.14	0.78	400	4.11	0.74	0.21	0.81
Better understanding of risk and return	137	3.96	0.90	140	3.96	0.78	123	3.89	0.88	400	3.94	0.85	0.32	0.72
Investors can compare a peer group of companies' financial statements	137	4.34	0.77	140	4.34	0.64	123	4.39	0.75	400	4.36	0.72	0.21	0.81
More timely financial report	137	3.60	1.03	140	3.64	0.87	123	3.69	0.94	400	3.64	0.95	0.31	0.73
Time saving in analyzing financial reports	137	3.72	1.09	140	3.70	1.08	123	3.89	0.97	400	3.77	1.05	1.36	0.26

Table 5: Job Specializations -wise Attribution for the Factors of Benefits to Investors in Convergence Process

Area of Specialization	**Accounts**			**Audit**			**Taxation**			**Others**			**Total**			**Test**	
Factors	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	F	Sig
Better information for decision making	86	4.36	0.48	89	4.38	0.55	38	4.47	0.51	187	4.26	0.64	400	4.37	0.55	1.96	0.12
More confidence in information presented	86	4.06	0.76	89	4.15	0.67	38	4.16	0.72	187	4.11	0.78	400	4.12	0.73	0.26	0.85
Better understanding of risk and return	86	3.90	0.80	89	3.97	0.80	38	4.00	0.81	187	3.93	0.91	400	3.95	0.83	0.18	0.91
Investors can compare a peer group of companies' financial statements	86	4.35	0.79	89	4.38	0.63	38	4.47	0.60	187	4.32	0.75	400	4.38	0.69	0.52	0.67
More timely financial report	86	3.70	0.95	89	3.58	0.93	38	3.58	0.95	187	3.65	0.96	400	3.63	0.95	0.27	0.85

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Time saving in analyzing financial reports	86	3.79	0.86	89	3.66	1.12	38	3.58	1.29	187	3.84	1.05	400	3.72	1.08	1.01	0.39

Table 6: Years of Experience -wise Attribution for the Factors of Benefits to Investors in Convergence Process

Years	**0-5**			**5-10**			**10-15**			**Above 15**			**Total**			**Test**	
Factors	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	F	Sig
Better information for decision making	148	4.32	0.56	98	4.37	0.58	68	4.35	0.66	86	4.29	0.55	400	4.33	0.59	0.32	0.81
More confidence in information presented	148	4.01	0.76	98	4.04	0.76	68	4.26	0.77	86	4.26	0.64	400	4.14	0.73	3.39*	0.02
Better understanding of risk and return	148	3.89	0.85	98	4.01	0.89	68	4.01	0.86	86	3.88	0.82	400	3.95	0.85	0.72	0.54
Investors can compare a peer group of companies' financial statements	148	4.32	0.73	98	4.35	0.84	68	4.34	0.73	86	4.43	0.54	400	4.36	0.71	0.42	0.74
More timely financial report	148	3.58	0.93	98	3.63	0.97	68	3.68	1.00	86	3.72	0.92	400	3.65	0.95	0.43	0.73
Time saving in analyzing financial reports	148	3.73	1.09	98	3.90	0.95	68	3.68	1.07	86	3.74	1.09	400	3.76	1.05	0.75	0.52

*Significant difference at five percent level.