CHAPTER 6
CLOSING NOTES, SUGGESTIONS, & SCOPE FOR FURTHER RESEARCH

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CLOSING NOTES
Discussion in previous chapter on Data analysis & interpretation presented exciting results concerning impact of wilfully implementation of I.F.R.S. on financial activities of Indian companies. The result evinced mixed differences among I.F.R.S. & Ind. G.A.A.P., some were positive whereas some were negative, some larger, some smaller, in each financial indicator of financial activity. Such changes in financial ratios exist in absolute numbers or magnitude. The inference is that the implementation of stricter accounting rules under I.F.R.S. could be the responsible for the variation noted in accounting data & financial ratios. Whereas, there exist no statistical evidence at 5% level of implication to demonstrate that any of the financial activity was superior to earlier status under wilfully implementation of I.F.R.S. by Indian companies.

The study is significant as it evaluates the impact or otherwise of I.F.R.S. implementation on various financial activities of Indian companies, particularly in a situation when the implementation of I.F.R.S. is not compulsory in India. So far, there is simply a solitary study in India as sample country in relation to banking industry that too being descriptive in nature, it does not empirically test implication of I.F.R.S. s on the banking industry. In such a case, the current study, gain an edge to the Indian state of affairs.

Besides, this study further earns superiority for the reason that it empirically tests the impact of financial activities owing to wilfully implementation of I.F.R.S. by Indian companies. Against the first hypothesis, the study did not find any statistical evidence which prove that corporate disclosure via I.F.R.S.
implementation had any improvement in financial risks when financial indicators for this type of financial activity is tested in detail using both I.F.R.S.-based & Ind. G.A.A.P. -based data.

Although the literature indicates that wherever I.F.R.S. have been adopted they have been benefitted in terms of low cost of equity & hence more investment opportunities, irrespective of country’s infrastructure, yet, in the second hypothesis, the research does not endorse this view & does not find any statistical support for rise in investment activities after I.F.R.S. implementation by Indian companies., rather investment activities are noted to be more in Ind. G.A.A.P. as compared to I.F.R.S.

The third hypothesis which goes to search whether I.F.R.S. has definite impact on mergers & acquisitions activities as the financial activity, also observed similar result as noted in case of earlier two hypotheses. No statistical improvement came to light in mergers & acquisition after implementation of I.F.R.S. voluntarily, as compared to Ind. G.A.A.P..

Coming to the result of fourth hypothesis regarding the impact of I.F.R.S. on diversification activities, no empirical evidence came to notice to support that diversification activities were augmented after the implementation of I.F.R.S. voluntarily. Instead, in absolute terms, mean of diversification activities was noted to be more in Ind. G.A.A.P. as compared to I.F.R.S. Whereas, the literature speaks differently & supports the view that I.F.R.S. implementation helps to improve the information environment & various financial activities of the companies.

In short, the research concludes that even though positive & negative differences exist in absolute numbers of each financial indicator of each financial activity on the data calculated according to I.F.R.S. & Ind. G.A.A.P. basis, but there are of no statistical importance concerning I.F.R.S. & impacting major financial activity of Indian companies. Still, this study endorses earlier works & similar others researches. Having concluded so,
based on the empirical results mentioned elsewhere, the disclosures under I.F.R.S. by Indian companies seems necessary looking to the information motives of international investors & should purpose to minimise the likely negative impacts in international portfolios.

CONTRIBUTIONS

The foremost contribution of this research is to endow with complete evidence regarding the impact on various major financial activities by Indian companies with the implementation of I.F.R.S., despite being wilfully in nature. Having gone through the powerfully built literature from several western nations & not-so-well-developed literature from developing nations like India, this thesis undoubtedly renders helping hand in appreciating the different perspectives of I.F.R.S. implementation. In addition, it also evaluates the thinking as to why there is a rising trend of accounting standards harmonization via I.F.R.S. across the world.

The current study also adds valuable contribution to the existing literature examining the financial impacts of I.F.R.S. implementation in two ways. One, the study extends the literature by showing how fundamental financial ratios vary under I.F.R.S. as compared to Ind. G.A.A.P. . Two, by examining the changes in items of financial statement, the research shows that there is no empirical statistical evidence for improvement in financial activities of Indian companies. For this, the researcher has attempted to present financial matrix from published accounts arranged under Ind. G.A.A.P. besides I.F.R.S. & the difference in twin sets. The research thus contributes to the literature on the affects of I.F.R.S. implementation & submits evidence on the impact of I.F.R.S. implementation on financial activities as observed from various items in accounts.

The study also contributes to the prevalent accounting literature relevant to India as its sample country, which are practically negligible. This helps to scan
whether financial activities perk up with the implementation of I.F.R.S.,
despite wilfully in nature. Thus the research may also contribute in policy
making, in so far as the accounting part is concerned. Apart from this, the
study also attempts to inform to international accounting standard setters &
accounting regulators facing issues similar to those in India. Further, not less
important, this study also helps to understand why certain nations are
impending implementation of I.F.R.S. on compulsory basis. The study paves
the way to understand whether the delay in I.F.R.S. implementation is due to
continued fear of market reaction to I.F.R.S. implementation or the belief of
negative impact of I.F.R.S. implementation. Thus it would definitely assist the
policy makers in formulating supplementary rules & regulations towards
I.F.R.S. harmonization.

The vital contribution of this research is that it thoroughly examines the impact
of I.F.R.S. implementation on financial activities of Indian companies. The
benefits that Indian companies are likely to reap with the implementation of
I.F.R.S. can be summarised as under:

a) Spurt in growth of international business.

b) Rise in foreign capital inflow into the country due to rise in foreign
   investments.

c) With international acceptance of accounting standards & their application on
   regular basis, the transparency would increase & thereby understanding &
   confidence will increase. With recognition of quality reporting, investors
   would not hesitate & thereby would not ask for a risk premium. With
   consistent application & the resulting comparability, investors & analysts feel
   comfortable in capital investment.

d) The perception that I.F.R.S. tends to cost more would dilute in due course of
   time with single financial language that ultimately reduces preparation & audit
   costs.

f) The professionals would have more avenues to serve international clients.
I.F.R.S. CONVERGENCE IMPACT ON INDIAN COMPANIES

Putting it all together, the Indian companies largely prone to be affected by I.F.R.S. convergence are companies that have any of the following features:

➢ Generate revenues from long term contracts
➢ Carry a large fixed asset base on their balance sheet
➢ Have a significant amount of foreign currency borrowings
➢ Have made large corporate acquisitions
➢ Use financial derivatives

The inference is that the sectors mainly expected to be impacted can be banks, property, auto makers, resources & infrastructure. The chart below sums up judgment of earnings risk on a sector by sector basis consequent upon I.F.R.S. convergence.

Impact of India’s I.F.R.S. convergence on Fundamental Sectors:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Main Areas of Impact</th>
<th>Earnings risks</th>
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<tbody>
<tr>
<td>Banks</td>
<td>Loan loss provisions</td>
<td>High (public banks)</td>
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<td></td>
<td>Pension liabilities</td>
<td></td>
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<tr>
<td></td>
<td>Derivatives</td>
<td>Low (private banks)</td>
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<td></td>
<td>Share based compensation</td>
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<tr>
<td>Property &amp; construction</td>
<td>Revenue recognition</td>
<td>High</td>
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<td></td>
<td>Investment properties</td>
<td></td>
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<tr>
<td></td>
<td>Foreign currency borrowings</td>
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<tr>
<td>Energy &amp; resources</td>
<td>Capitalisation of costs under tangible</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>fixed assets</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>Important Issues</td>
<td>Level</td>
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<td>---------------</td>
<td>----------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Infrastructure</td>
<td>Capitalisation of costs under tangible fixed assets, Foreign currency borrowings, Lease accounting</td>
<td>High</td>
</tr>
<tr>
<td>Auto makers</td>
<td>Capitalisation of costs under tangible fixed assets, Foreign currency borrowings, Lease accounting</td>
<td>Medium</td>
</tr>
<tr>
<td>Industrials</td>
<td>Revenue recognition, Foreign currency borrowings</td>
<td>High</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>Revenue recognition, Valuation of brands in intangible assets</td>
<td>Low</td>
</tr>
<tr>
<td>IT services</td>
<td>Share based compensation</td>
<td>Low</td>
</tr>
<tr>
<td>Consumer staples</td>
<td>Revenue recognition, Valuation of brands in intangible assets</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: KPMG India, Deloitte India, PWC India, CM Research

**SUGGESTIONS**

I.F.R.S. regulations have significant implications not only for preparers of financial statement & their users but also for entire community of financial reporting institutional infrastructure besides the level of accounting harmonization across the globe. The need towards conformity in international
accounting results from the globalization of business & the need for a common set of accounting standards to facilitate international trade & investment. Conversely, the so called benefits are not free from multiple problems as they come hand in hand with the conversion from indigenous general accounting practices to I.F.R.S. Briefly the conversion problems (while implementing the I.F.R.S.) can be counted in the following areas:

a) The resources of the companies come under intense pressure, especially during two reporting systems & when disclosure necessities & information motives to overcome the existing accounting information system. In addition, the extent of the impact on system is generally underestimated. The solution lies in a planned approach prior to implementation of I.F.R.S.

b) Due to large number of rules & regulations the accounting framework in India is likely to be serious affected. Various regulatory necessities under several acts like the Companies Act, the Income Tax Act, the SEBI’ regulations & the R.B.I. notifications etc will need modifications, which itself requires intense exercise & time, prior to the accounts on the basis of I.F.R.S. are made generally acceptable.

c) At the onset that is till full convergence is achieved, increase in cost due to dual reporting necessity is formidable, which the organization might have to bear. Still, the solution would be in amortization but have to be borne by the corporate.

d) Besides convergence, additional cost for modification in the information technology systems & procedures to allow it to collate necessary data for meeting the new disclosures & reporting necessities. There is no shortcut but to plan & bear.

e) Suitable training module with the engagement of experts in the field would be another necessity for its implementation so that I.F.R.S. are uniformly understood & consistently applied by all stakeholders such as, workers, auditors, regulators & tax authorities. Limited pool of trained resource &
persons having expert knowledge on I.F.R.S. can be addressed through the implementation of I.F.R.S. course in social science related subjects or disciplines from graduation, post graduation besides professional programmes.

f) Differences among Ind. G.A.A.P. & I.F.R.S. may be smaller or bigger but they may impact business decision/financial performance of an organization. The extent of impact motives to be assessed & phase-wise implementation may be taken up.

It is essential to understand that the conversion to I.F.R.S. is much more than a technical accounting exercise. I.F.R.S. also have tax, internal reporting & system implications. The change is profound, especially when seen in the broader context of current financial reporting environment, conjointly an ever-intensifying movement towards fair value accounting mention accounting to be only an instrument of recording.

Hence, the alteration of accounting system does not symbolize the change of real financial state of affairs of the organisation. The volume of fixed or current assets besides the volume of equity or debt remain physically unaltered as prior to the change of method. The only difference is in the system of their assessment & definition under I.F.R.S. This is not an attempt to deflate the importance of accounting standards.

There is undeniably towering informative value of accounts arranged under both standards. The stakeholders of the business should not be misguided by the alteration in ratios under the two sets of reporting. The Indian corporate sense that the Indian accounting standards present the financial situation in better light than I.F.R.S., which is preferable image for organisation management & present stakeholders. Conversely, the prospective international investor or external surveyor would understandably prefer the I.F.R.S. point of view as they are more far-sighted in organisation assessment especially in its profitability. It is therefore, of paramount consequence to understand the minutiae of I.F.R.S. & the benefits that it would add in the future. The Indian
national accounting rules & standards need to be modified in order to accomplish the essential goal of convergence with I.F.R.S. & comparability of accounts. Presently, this mission is being looked after by Institute of Chartered Accountants of India. The implementation of I.F.R.S. will increase comparability of consolidated accounts besides levels of transparency for several Indian companies, for example, through expanded segment disclosures, reporting unfunded pension responsibilities & the recognition of derivatives on balance sheets at fair value. It is therefore to be tacit that, the execution of I.F.R.S. is not only about different accounting standards & policies; but it is the implementation of a completely different system of performance assessment & communiqué with the markets.

Indian companies publish accounts in a language that is foreign to overseas investors. The risk of being materially misinformed when investing in India is therefore high. Only three major world economies have yet to shift to I.F.R.S. They are the US, Japan & India. Japan effectively follows US Generally Accepted Accounting Practice (US G.A.A.P.). The differences among US G.A.A.P. & I.F.R.S. are well documented, but global investors still have a problem with Indian G.A.A.P.. It is less well understood, allows too much discretion & makes international peer comparisons virtually impossible. More importantly, it can be counter-intuitive & therefore misleading. Today 84% of the stocks in the Nifty 50 Index produce accounts solely under Indian G.A.A.P., ignoring I.F.R.S. entirely. Under Indian G.A.A.P., profits may not be as real as they appear to be. For illustration; With Indian corporate borrowing rates well over 8%, many Indian companies took out foreign currency borrowings- usually US Dollars- to access lower borrowing rates. Many of them did not hedge their foreign currency exposure. Over the last six years, as the chart below illustrate, the Indian rupee has depreciated against the dollar by 37% causing many of these companies to incur foreign exchange losses.
The date for I.F.R.S. implementation by India has been repeatedly postponed over the last four years, with some experts predicting some kind of convergence towards I.F.R.S. by 1 April 2015. Nonetheless, I.F.R.S. is not an matter for tomorrow; it impacts stock prices today.

By assessing the likely impact of I.F.R.S. on Indian companies’ financial statements; we can get a good sense of which companies are likely to be overstating or understating earnings now. When it does move, India will not actually conversion to I.F.R.S., as understood by global investors. It will move to “Ind.A.S.” – India’s version of I.F.R.S. – in a process called “I.F.R.S. convergence”. In fact, Ind.A.S.is simply are rejection of the unpalatable facets of I.F.R.S. that Indian companies have long lobbied the Minister for Corporate Affairs. No date has been set for Ind.A.S.to come into force, but many of the standards have been drafted.

CHALLENGES

While deliberating on the implementation facets it will not be out of place to discuss the challenges ahead. Some of them are brought out hereunder:
Amongst the vital challenges in the implementation of I.F.R.S. one prime concern is its use of fair values which may bring enlarged volatility in the reported values of assets & also the earnings. This kind of challenge is especially encountered by banks & insurance companies who experience significant problems in the implementation towards fair value accounting. Hence the management will have to plan for proper communication about organisation’ performance to the stakeholders so that its performance is suitably evaluated by the markets, more so against its competitors.

Secondly the cost aspect in the implementation of I.F.R.S. is a major constraint. The conversion process & then the training programme for staff across the organisation which would let them adopt the new way in which a business is operated are among the most important issues pertaining to switching to the I.F.R.S.

Thirdly, the multifarious character of some of the I.A.S.B.s’ standards lacks in sufficient implementation guidance. The lack of guidance creates risks for different local & national interpretations of I.F.R.S.

Nevertheless, it is held that the change in accounting regime will have a positive impact on the competitiveness & the growth of not only Indian companies but also companies across the globe.

It is therefore suggested that the I.F.R.S. proponents need to be serious on the concurrent changes in the institutional environment with respect to enforcement, governance & auditing, relevant to all organisations.

Seeing & analyzing the benefits of I.F.R.S., it becomes all the more pertinent for a country like India to adopt it as soon as possible so as to maintain investors’ positive sentiments & also strengthen their faith & credibility in the Indian Market. The implementation might lead to short term investments & initial challenges but the long term benefits are strong enough to justify the initial hassles of implementation & adoptability.
A holistic roadmap, with the support of the government, must be chalked out to train all the people from the top management to all the stakeholders involved so as to gain maximum benefits from I.F.R.S.

Intensely lobbied by vested interests, the Ministry of Corporate Affairs is the real block to I.F.R.S.: (India’s approval process for accounting standards)

Source: Institute of Chartered Accountants in India, CM Research

**SCOPE FOR FURTHER RESEARCH**

The study in I.F.R.S. literature offers ample reach for further research.

Taking into consideration the limitations of this study, one can think of making detailed study of the impact of I.F.R.S. implementation by Indian companies with a bigger sample size. This is feasible only when greater number of companies adopts I.F.R.S. voluntarily or when the I.F.R.S. implementation becomes compulsory. I.F.R.S. implementation can be further studied with Indian companies in the context of various other concepts like corporate governance. I.F.R.S. implementation would also have impact on fair value
accounting, lease accounting, income tax accounting. While taking up such a study, the impact of I.F.R.S. implementation can be tested with various other statistical tools to validate the results.

During the instant study the researcher has taken care of only at the positive facets of I.F.R.S. implementation, that is, whether the financial activities increased/improved after I.F.R.S. wilfully implementation. Despite the information that in this study the results did not statistically support the hypotheses, upcoming research could be done with the purpose to look at whether there is negative or no impact on financial activities due to I.F.R.S. wilfully implementation by Indian companies.

Besides, a comparative study among compulsory implementation & wilfully implementation can also be of interest in future. Another extension of the study can be to interpolate the data of organisations from other nations that have adopted I.F.R.S. for their accounts. Such a cross country study would be interesting & increase the sample substantially. In this context, the observations of some of the eminent scholars in the field are noteworthy.

This would also assist to intensify control problems because many institutional arrangements could be accounted for explicitly & also assist in understanding benefits of I.F.R.S. implementation. Cross-country studies would also assist to specify & assess differences in events resulting from diversity in accounting norms of these nations that subsequently influence financial indicators.

Another aspect of upcoming research could be to compare how managerial incentives influence decisions to elect optional exemptions, differ across nations that mandatorily adopt I.F.R.S. It would also be interesting to investigate whether the value-relevance of compulsory & optional equity modifications is influenced by country-specific factors.

Further research could benefit from examining the relationship among I.F.R.S. implementation & other facets of earnings quality such as timeliness, earnings conservatism & value relevance.
In this study the researcher has contained the investigation to data pertaining to some of the major activities as it stands in the case of Ind. G.A.A.P. & then I.F.R.S. & also the difference in two sets & also documented its impacts. Fact remains that differences do exist in magnitude but not significant even though no support was found statistically. It may be possible that some assessment errors could have crept in the methodology, but such gaps can be filled by upcoming research as & when data of Indian companies becomes available under compulsory I.F.R.S. It is also the researcher’s expectations that the association among accounting numbers under I.F.R.S. & the impact on financial activities & the market outcomes would happen over the time. To reach comfort level with confidence & reliance on the information produced by I.F.R.S. is a matter of time. It is little early to strongly conclude either way. This maturation process would offer upcoming researchers abundant & exhilarating opportunities in the time ahead.