CHAPTER 3
RESEARCH DESIGN & METHODOLOGY

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PURPOSE OF THE STUDY
The prime purpose of the research is to assess the impact on financial activities of Indian companies of disclosing voluntarily their accounting information under I.F.R.S. It is implied that superior disclosures diminish the inference risks of potential earnings, thus plummeting the cost of information asymmetry that takes place for reasons like unfavourable selection & risk quality. As a result minimises the financial risks encountered by the companies & raises the prospects of financial activities such as investments, diversifications, mergers & acquisitions & other vital functions pertaining to finance.

RESEARCH METHODOLOGY
The research purposes to assess the impact on financial activities due to deliberate implementation of I.F.R.S. by Indian companies. Despite the information that implementation of I.F.R.S. is yet to be made compulsory by the regulatory authorities in India, certain companies have chosen to adopt it of their own. Such of the companies usually adopt I.F.R.S. in one of the following two types:

a) Split reporting: Split reporting denotes to companies which publish two sets of different accounting statements that is one in Ind. G.A.A.P. & other in I.F.R.S.

b) Reconciliation statements: This implies reporting of separate notes & statements showing differences among Ind. G.A.A.P. & I.F.R.S. The researcher therefore, purposes to study & compare the above annual reporting
& statements of the sample Indian companies. The design of study, data collection & system of assessment are discussed below.

**STUDY DESIGN**

Presently, most Indian companies pursue Ind. G.A.A.P.. It was envisaged to adopt I.F.R.S. from April 1, 2012 in a phased manner, but the directives from regulatory authorities are awaited. Nonetheless, some of the companies have of their own decision adopted I.F.R.S. mostly from the financial year 2007. They have done so at par with international standards, with a view inter-alia to raise money from international market & looking to potential benefit from associated financial activities with disclosures under I.F.R.S. The study therefore, attempts to exhibit as to how I.F.R.S. has given edge or otherwise the various financial benefits of these companies. These companies are mostly the most actively traded in the exchanges. Keeping this in mind along with companies with market capitalization of minimum Rs 500 million or above have been chosen as the threshold limit. In addition, to empirically test the hypotheses on financial results of I.F.R.S. implementation by selected companies, t-test for two samples implies differences have been applied.

**STATEMENT OF PROBLEM**

The statement of problem is to check what are the impacts on financial activities, that is, on financial risks, investments, diversifications, mergers & acquisitions & other fundamental functions of finance after implementation of I.F.R.S. by Indian companies & to study whether disclosures under I.F.R.S. really have an impact on financial activities of the Indian companies or not. The rising acceptance of I.F.R.S., both in the U.S. & around the world, implies that now is the high time to become well-informed about these changes. Most CPAs will somehow be affected. Once a critical mass of non-U.S. companies in a certain industry sector begins to report their financial results using
I.F.R.S., there will likely be pressure for U.S. issuers to do the same, to allow investors to better compare their financial results. But this matter will have an impact far beyond just financial reports. It will influence almost every aspect of a U.S. organisation’s operations, everything from its information technology systems, to its tax reporting necessities, to the way it tracks stock-based compensation.

As the necessity demands, the researcher has planned to study how I.F.R.S. has impacted fundamental financial activities such as:

- What is the impact on financial risk after wilfully implementation of I.F.R.S. by Indian companies?
- What is the impact on investment activities after wilfully implementation of I.F.R.S. by Indian companies?
- What is the impact on merger & acquisition activities after wilfully implementation of I.F.R.S. by Indian companies?
- What is the impact on diversification activities after wilfully implementation of I.F.R.S. by Indian companies?

**OBJECTIVES OF THE STUDY**

The overall purpose of the research is to study the impact on financial activities due to wilfully implementation of I.F.R.S. by Indian companies. The specific purposes are as follows:

- To study the existing accounting & disclosing norms;
- To know what made the companies under study to adopt I.F.R.S. voluntarily;
- To assess the impact on financial activities by implementation of I.F.R.S.; and
- To make suitable suggestions for better disclosures that would enhance the value with such financial activities.

The implementation of accounting standards that requires high-quality, transparency, & comparable information is welcomed by investors, creditors, financial analysts, & other users of accounts. It is difficult to compare
worldwide information without a common set of accounting & financial reporting standards.

The use of a single set of high quality accounting standards would facilitate investment & other financial decisions across borders, increase market efficiency, & reduce the cost of raising capital.

The motivation for this research is to assess the impact on financial activities of Indian companies by disclosing their accounting information under I.F.R.S.

As a matter of fact, better disclosures reduce the estimation risk of upcoming earnings, thereby reducing the cost of information asymmetry that takes place due to adverse selection & risk premium which in turn reduces the financial risks faced by the companies & increases the financial activities like investment activities, diversifications, mergers & acquisitions & other fundamental functions of finance.

**REACH & IMPORTANCE OF THE STUDY**

This study is significant for the simple reason that Indian companies have started going globally to raise money, for that they have to comply with the Int.A.S. This gives importance to the use of I.F.R.S. being a single accounting standard across the globe.

The reach of this research is restricted to listed Indian companies on National Stock Exchange (NSE). NSE listed companies have to publish their financial annual reports in the compulsory accounting principles as required in India. In addition to this, some of these companies also publish their financial annual reports in I.F.R.S. voluntarily in India. The foreign companies that have responsibilities to publish their financial results in I.F.R.S. due to their multiple listing are excluded from this analysis.

This research will significantly contribute to accounting & finance knowledge from the perspective of users of such information. The research also tries to uncover factors influencing the financial activities like financial risk management, investments, diversification & mergers & acquisitions in Indian
companies & see how these activities are affected by better disclosures through I.F.R.S.

**HYPOTHESES**

Based on the purposes of the study, the researcher hypothesizes the following:

**Hypothesis 1:**

Ho: Financial risk did not improve after the implementation of I.F.R.S. voluntarily.

H1: Financial risk improved after the implementation of I.F.R.S. voluntarily.

**Hypothesis 2:**

Ho: Investment activities did not increase after the implementation of I.F.R.S. voluntarily.

H1: Investment activities increased after the implementation of I.F.R.S. voluntarily.

**Hypothesis 3:**

Ho: Merger & acquisitions activities did not improve after the implementation of I.F.R.S. voluntarily.

H1: Mergers & acquisitions activities improved after the implementation of I.F.R.S. voluntarily.

**Hypothesis 4:**

Ho: Diversification activities did not increase after the implementation of I.F.R.S. voluntarily.

H1: Diversification activities increased after the implementation of I.F.R.S. voluntarily.

**DATA COLLECTION**
For in-depth study a representative sample selection of companies was necessary. For this purpose, the researcher took stock of the list of Indian companies that had issued Global Depository Receipts (GDRs) in E.U.. With this standards in view, it was noted that a total of 172 Indian companies fell in this criteria, whose GDRs have been listed on Luxembourg Stock Exchange. It was incumbent on such of the companies that they were to report their accounts in I.F.R.S. for the reason that E.U. has mandated I.F.R.S. reporting from year 2007.

Following this, the researcher accessed at the websites of each of 172 companies in search of the annual reports in Ind. G.A.A.P. besides I.F.R.S. The standards were to have I.F.R.S. reporting for the previous four years that is from the year 2009-10, (European Union had mandated I.F.R.S. in 2007). Consequently, the final sample size was limited to four Indian companies that reported accounts in I.F.R.S. for the previous four years from 2009-10 to 2012-13 along with Ind. G.A.A.P.. One important reason for lesser number of companies meeting with the standards was that majority of the companies did not have I.F.R.S. accounts on their website. Some of the companies assured commitment to I.F.R.S. standard, once made compulsory in India. This all lead to the final sample size of four Indian companies with financial accounts in Indian system besides voluntarily implementing I.F.R.S. for four accounting years from 2009-10 to 2012-13.

COMPANIES UNDER STUDY

As mentioned above, based on the data collection, the researcher’ could locate list of Indian companies that issued Global Depository Receipts (GDRs) in E.U., that lead to the final sample size of four Indian companies that reported accounts in I.F.R.S. for the previous four years from 2009-10 to 2012-13 besides Ind. G.A.A.P.. Such of the companies are:

1) Dabur India Ltd,
2) Infosys Ltd,
3) Noida Toll Bridge Co. Ltd, and

4) Rolta India Ltd

TOOLS FOR COLLECTING DATA & INFORMATION

For the purpose of study the vital data in this case includes all financial information & statements arranged by the selected companies based on the standard of I.F.R.S. & also Ind. G.A.A.P. & placed on the respective website (since they were not readily available elsewhere). So we have collected all required basic financial information from annual reports, reporting statements of the sample companies for data collection for the time from 2009-10 to 2012-13

FINANCIAL TEMPLATE FOR DATA ANALYSIS & SUMMARY

The data for the selected four companies for the time from 2009-10 to 2012-13 have been collected for each parameter as detailed below:

a) For the purpose of appraising the degree of financial risks of each of the selected organisation, the researcher has used collected data for liquidity (quick ratio), profitability (return on equity ratio), leverage (gearing ratio) & market based parameter (price earnings ratio).

b) To analyse & examine the efficiency of managers on investment decisions, the researcher has preferred to use collected data for investment in fixed assets (actual value), cash flows in investments (actual value) & return on assets (ratio among total assets & net income) as these are mentioned in the annual report & attached schedules etc.

c) In case of decisions on mergers & acquisition activities, the researcher uses collected data for diluted EPS (actual value), equity ratio (ratio among total owners equity & total assets) & operating risk (fixed asset turnover ratio).

d) To check the diversification activities, the researcher uses collected data for growth (sales growth) & operating cash flows (actual value).
With intention to implement certain data in absolute terms, necessary logarithmic transformations were done. While data on factors are collected, both sets of information have been of value, one for Ind. G.A.A.P. & other for I.F.R.S. for four years each, as already mentioned herein above. With the given two samples, t-statistics is used for hypotheses testing at 5% level of significance.

**GRAPHICAL PRESENTATION**

Based on the t-test, the researcher has diagrammatically depicted the critical & acceptance areas under normal distribution under one tail test, as relevant, for testing the null hypotheses during analysis & interpretation.

**LIMITATIONS OF THE STUDY**

This study on I.F.R.S. in Indian context is primarily qualitative in type & do not use any quantitative tool to scrutinize the data. The study has been carried on primarily on the cornerstone of literature survey & secondary data. Several journals, newspapers & magazines articles have been looked up while writing this paper.

As members of E.U. were the pioneers to adopt I.F.R.S. across the universe, the majority of the researches have been focused on I.F.R.S. appraising the data from member nations of E.U. Relatively less numbers of studies have been undertaken on data from other developing nations like India. This article makes an endeavour to conduit this gap & attempts to analyze the Indian data with reference to I.F.R.S. implementation/convergence, efficacy of I.F.R.S. implementation for India, obstructions confronted by the stakeholders in the process of implementation of I.F.R.S. in India & the manners to get rid of these obstructions. The study endures with some limitations as well. Though not extremely striking, these can be numbered as under:

1. The points deliberated in the article are drawn in mainly from secondary sources, i.e., Journal Articles, Magazines, & Newspapers etc. The study is
therefore, qualitative in nature. It is therefore hard to scrutinize the issues all the way through quantitative tools.

2. The I.F.R.S. implementation procedure is yet not fully implemented in India. Hence, the study, finds it next to impossible to discuss the after results of I.F.R.S. implementation on stakeholders of India financial reporting system.

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