IMPACT : International Journal of Research in Business Management (IMPACT : IJRBM)
ISSN(E): 2321-886X; ISSN(P): 2347-4572
Vol. 3, Issue 4, Apr 2015, 7-12

IMPACT OF ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ON BUSINESS DECISIONS IN ANDHRA PRADESH STATE OF INDIA

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ABSTRACT

This paper introduces new theoretical arguments to explain how institutional pressures influence decisions to adopt IFRS voluntarily. Through recourse to an institutional theory context, we combine the analytical framework proposed by Oliver (1991) with the concept of institutional logics, and apply this framework to the financial accounting field for the first time. This combined model shows how multiple forms of rationality constrain company responses to pressures to adopt a new accounting regime. This study focuses on the methods and methodology for the measurement of formal accounting convergence. Single standards are clustered according to their convergence level, which may indicate further convergence emphasis. The results reveal that this new method can measure the convergence level of NAS with IFRS more clearly and informatively. Prevailing institutional logics are shown to provide important insights to the decisions of companies to adopt IFRS voluntarily. We draw on our results to contend that a company's acquiescence to institutional pressures to adopt IFRS occurs notwithstanding that they can also contemplate more active strategies (through decoupling)

KEYWORDS: Formal Accounting Convergence, Measurement, Fuzzy Clustering Analysis, IOSCO

INTRODUCTION

The globalization of the world's economy has inevitably resulted in efforts to establish a single set of financial reporting standards, which is considered the path to achieving accounting convergence globally. In May 2000, the International Organization of Securities Commissions (IOSCO) completed the assessment of the International Accounting Standards Committee (IASC) core standards, including their related interpretations (the IASC, IAS2000). Members of IOSCO were encouraged to use the IASC standards to prepare their financial reporting for cross-border offerings and listings, supplemented where necessary to address outstanding substantive issues at a national or regional level, or to use waivers of particular aspects of IASC standards without requiring further reconciliation under exceptional circumstances. In 2001, after its reconstruction, the International Accounting Standards Board (IASB) adopted objectives for developing and promoting the use and rigorous application of a single set of global accounting standards. Despite the progress, significant differences from IFRS still exist in many national accounting systems.

STATEMENT OF PROBLEM

In last few years, because of emergence of the global economy and growing integration of world's capital markets, financial reporting has undergone significant changes. Many market participants are considering whether it is possible or desirable to move toward a single" globally accepted financial reporting standard" so that these entities' can speak a uniform global " language" for financial reporting.

The need to converge to an international reporting standard gives an opportunity for Indian real estate companies to align their own accounting standards this may have dual effects.

In one hand it makes reporting universal for the companies more so for Indian. Real estate companies where interest of foreign investors is increasing day by day. Migration to new reporting standard will bring about certain differences in terms of reporting but the opportunities gained by the convergence should offset the limitations. With this point, effort has been made to go through study the impact of IFRS on Indian real estate .

NEED FOR THE STUDY

International Financial Reporting Standards the "IFRS" aims to make international financial reporting comparisons as easy as possible because each country has its own set of accounting rules For example, U.S. GAAP is different from Canadian GAAP and both are far apart from Indian GAAP. Synchronizing Accounting Standards across the global is an ongoing process in the International Accounting community.

A set of International Accounting and Reporting Standards that will help in harmonizing company Financial Information improves the transparency of accounting, and ensures that investors receive more accurate and consistent reports and attempts by International Accounting Standards Board (ISAB) between 1973 and 2001 were designated as "International Accounting Standards".

India today has become an international economic force. Indian companies have surpassed in several sectors of the industry which include, ITES, software, Pharmaceutical, Auto Spares to name a few. And to stay as a leader in the international market, India opted the changes it need to interface Indian stakeholders', the international stakeholders' and comply with the financial reporting in a language that is understandable to all of them. In response to the need several Indian companies have already been providing their financial statement as per US. GAAP / or IFRS on voluntary basis. However this is becoming more of a necessity then just being a best practice.

OBJECTIVES OF THE STUDY

- To solicit opinion from Management and Stakeholders of Real Estate Industry about IFRS, and its impact on the Andhra Pradesh Estate, India.
- To make a study of the impact of IFRS on Real Estate industry (pre and post IFRS convergence).
- To examine the impact of IFRS on Liquidity Ratios, Leverage Ratios, average Ratios and Profitability Ratios and Management cinchy Ratios.
- Survey the attitudinal perception of Management and stockholders of Indian Real Estate Companies and banking regarding convergence to IFRS

SCOPE OF THE STUDY

The, scope of the Study is confined to examine the impact of IFRS on Indian Real Estate Industry, Andhra Pradesh only. Other sectors have not been taken as the study areas would be vast and implications would be different to different sectors.

RESEARCH HYPOTHESES

In the backdrop of the objectives of the study, the following hypotheses have been tested with regard to Indian Real Estate sector, Andhra

H0: There is no significant impact on business decision in Indian Real Estate Companies after convergence to IFRS.

H01: Convergence to IFRS has no impact on Liquidity ratios of Real Estate Companies.

H02: Convergence to IFRS has no impact on Solvency ratios of Real Estate Companies.

H03: Convergence to IFRS has no impact on Coverage ratios of Real Estate Companies.

H04: Convergence to IFRS has no impact on Profitability ratios of Real Estate Companies.

H05: Convergence to IFRS has no impact on Management efficiency ratios of Real Estate Companies.

H06: The management of Real Estate Companies is not positively biased towards the convergence to IFRS

RESEARCH METHODOLOGY

The purpose of this study is to provide empirical evidence of the impact on the financial ratios of Indian real estate companies due to transition to IFRS. Comparing financial ratios computed under IFRS with those obtained under Indian GAAP requires Financial Statements prepared under both the standards.

The effect of conversion is seen by examining the differences in financialstatements pre and post convergence.

Firstly, all the companies that form part of BSE Realty Index and qualify for these standards are taken. After the difference between Revenue figures pre IFRS convergence and actual cash flow from customers was calculated, the same difference percentage was used to calculate the difference in Earnings before Depreciation, Interest and Tax (EBDIT) margin. Data was collected from audited financial statements prepared under Indian GAAP for the accounting periods 2008 to 2012. All information has been taken from moneycontrol.com.

Based on the objectives and hypotheses for the study the present research is based on the use of both secondary and primary of information. The study is undertaken through data collection method using a well-designed and structured questionnaire and the data for the present study is culled our from both primary and secondary sources.

Since the financial statements under IFRS have not yet been prepared by Indian Real Estate Companies, empirical research has been carried out on the changes in figures in terms of new recognition principle and other impacts had been compared. Further, statistical significance of the differences is tested. Similar process was applied to investigate the differences in the Financial Ratios.

Sample Plan and Size

The sample for this study is taken to from BSE realty index. It constitutes the exhaustive list of 12 companies from which all 11 companies are taken except Sundeck whose Net Worth is less than 1000 crores and therefore does not need meet the IFRS convergence criteria. Using convenience sampling technique, employees working in the finance departments, and top level management constituting CEOs and CFOs, promoters, Auditors, Consultants, Banks and Financial Institutions and others who are directly or indirectly connected to the Real Estate Industry were approached and consulted for this study. For the questionnaire survey, N=258 respondents from those eleven companies were selected.

Period of Study

The research was conducted by considering the historical data for a period starting from 2011 and ending with 2015.

FINDINGS

IFRS will impact all the areas of your businesses as bellow:

IFRS has impact on Liquidity ratios, Solvency ratios, Coverage ratios, Profitability ratios and Management efficiency ratios

CONCLUSIONS

Steps in implementing IFRS as a high level approach are as bellow

STEP 1 – REVIEW YOURBUSINESS

STEP 2 – IDENTIFY THE IFRSTHAT WILL HAVE MATERIALIMPACT

STEP 3 – DETAILED ANALYSIS

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