

Ind AS IN INDIAN COMPANIES: EFFECTS ON FINANCIAL STATEMENTS

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Abstract

In present scenario, after the globalisation there is rapid progress in cross-border transactions, raising international investments and listing in other stock exchanges. The Indian companies are required to follow a single accounting standard for the preparation of financial statements in order to bring understandability and comparability of accounting information. International Financial Reporting Standards were developed and adopted by various countries and in India also in phased manner. Now, the Indian companies need to publish their financial statements in Ind AS (converged IFRS) from 2016 in phased manner

The need for this study is to investigate the impact on financial statements of Ind AS adoption from the year 2015 to 2016. The first-time adopters of Ind AS and the effects on financial statements is analysed on 15 Indian companies where the samples are selected on random basis based on availability of Ind AS statements. The data is analysed using non-parametric test, Wilcoxon Signed rank test as the variables are not normally distributed.

The study analyses parameters from the balance sheet and income statement to understand the changes statistically though there is change in absolute figures. The overall results show that three variables namely total assets, total equity and total revenue have significant difference after the adoption of Ind AS while the total liabilities and net profit does not have significant statistical difference.

Keywords: Ind AS, financial statements, International Financial Reporting Standards (IFRS)

1. INTRODUCTION

The financial statements of companies show their financial position and every listed companies are preparing for the purpose of communication to their investors. The information reported in the annual reports are accessed by various investors to make decisions on the stock price. The accounting standards are guidelines which form an important part while preparing financial statements of a company. The Institute of Chartered Accountants of India is the supreme body established Accounting Standards Board (1977) for issuing accounting standards in India. The main objective of the standards is to give the financial statements a uniform, comparable and reliable image of accounting data to the decision makers. Every country follows their own local Generally Accepted Accounting Principles (GAAP) for the purpose of preparation of financial statements.

After globalisation the companies are operating world-wide with cross border transactions and listing in other stock exchanges require to prepare under single accounting standard for the purpose of understanding of accounts to diverse investors. Therefore, there is a need for harmonisation of standards to bring a single standard throughout the world due to this reason International Financial Reporting Standards (IFRS) were developed. The standards are high quality and principle based unlike IGAAP which are rules based. [1] Daske et al. (2008) stated over 100 countries throughout the world moved towards the adoption of IFRS which marks significant regulatory changes in accounting history. Now, more than 150 countries have adopted IFRS to make sure single accounting standard is followed.

At present, ICAI in consultation with ministry of corporate affairs has issued Ind AS (Converged from IFRS) to be implemented by Indian companies in phased manner. But the Ind AS standards are similar to IFRS, with few carve-outs. The Indian companies having net worth more than Rs.500 crore are required to comply Ind AS from 1 April 2016 with comparatives for the 2015-16. Therefore, the companies need to prepare financial statements under two sets of accounting for the same period one for home country and another as per global standards [2] Rao et al. (2020).

In similar lines [3] Stent et al. (2010) examined the effect of IFRS in financial statements and ratios in New Zealand during 2005 through 2006. The author analysed 56 companies listed selected through stratified random sample categorising into 16 early adopters and 40 mandatory adopters of IFRS for the first time. The results showed large listed firms have greater impact by NZ IFRS when compared to small firms. Rao et al. (2020) examined whether accounting

figures, ratios and value relevance increased after preparing under IFRS and Ind AS when compared to IGAAP. The results proved significant impact of adopting IFRS and Ind AS on accounting figures and ratios and positive impact of book value on market price.

The study tries to analyse the changes in key variables after adoption of Ind AS in the year of transition for the first - time adopters. For this purpose, the effect on key accounting variables are studied for the companies who have adopted Ind AS.

2.1 OBJECTIVES OF THE STUDY

1. To study the effect of Ind AS on total assets, total liabilities and total equity from balance sheet of selected Indian companies
2. To study the effect of Ind AS on total revenue and net profit from profit and loss account of selected Indian companies.

2.2 HYPOTHESIS OF THE STUDY

H₀₁: The total assets do not have significant impact after reporting under Ind AS.

H₀₂: total liabilities do not have significant impact after reporting under Ind AS.

H₀₃: The total equity does not have significant impact after reporting under Ind AS.

H₀₄: The total revenue does not have significant impact after reporting under Ind AS.

H₀₅: The net profit does not have significant impact after reporting under Ind AS.

2.3 DATA METHODOLOGY

The data for the study is collected from annual reports of 15 Indian companies. First, the companies preparing statements under Ind AS were collected on random basis for the year 2016-17. The consolidated financial statements were considered for the data of accounting variables so 2015-16 prepared under IGAAP and 2016-17 under Ind AS reporting financial statements were collected. Therefore, the accounting variables analysed were total assets, total liabilities and total equity from balance sheet and total revenue and net profit from profit and loss account. Standalone financial statements are not considered as the Ind AS statements are only prepared for consolidated financial statements. The companies considered are Tata motors Ltd, Rolta Ltd, Tata consultancy Services Ltd, Indian oil corporation Ltd, Ramco Ltd, Dr. Reddy Laboratories Ltd, Hindustan Unilever Ltd, Zensar Ltd, Glenmark Ltd, Bharat petroleum corporation Ltd, Mphasis Ltd, Quickheal Ltd, Hindustan petroleum corporation Ltd, Cyient Ltd and Tech Mahindra Ltd.

The definition of variables is described in detail as follows:

The total assets include both current and non-current assets. The total liabilities include both current and non-current liabilities. The total equity includes share capital+ reserves+ non-controlling interest -accumulated losses (if any). Total revenue include revenue from operations + other income. Net profit considered is profit after tax

Table:1 shows descriptive statistics are calculated for the variables and table:2 shows normality test results. The author tested the variables using non-parametric test Wilcoxon Signed Rank test at 5% level of significance using SPSS Version 20.

3 EMPIRICAL RESULTS AND DISUSSION

Table:3 Results of Wilcoxon Signed Rank Test

	TA_INDAS - TA_IGAAP	TL_INDAS - TL_IGAAP	TE_INDAS - TE_IGAAP	TR_INDAS - TR_IGAAP	NP_INDAS - NP-IGAAP
Z	-2.215 ^b	-.966 ^b	-2.101 ^b	-2.101 ^b	-.625 ^b
Asymp. Sig. (2- tailed)	0.027	0.334	0.036	0.036	0.532

a. Wilcoxon Signed Ranks Test

b. Based on negative ranks.

Source: Author’s computation using SPSS statistics version 20

Table1 shows the mean values of variables are high in the Ind AS period with the range of maximum also high. The normality test results in table 2 shows both Kolmogorov-Smirnov test and Shapiro-Wilk test where all the variables under both IGAAP and Ind AS are $P < 0.05$ therefore, data do not follow a normal distribution. Therefore, non-parametric test is used to test the variables.

The table 3 shows the Wilcoxon test results of variables. The total assets have a p-value= 0.027 which is less than 0.05 at 5% level of significance hence, reject H_{01} means the total assets have significant impact after reporting under Ind AS. The total liabilities have p-value =0.334 which is greater than 0.05 hence, null hypothesis is accepted H_{02} total liabilities do not have significant impact after reporting under Ind AS. The total equity p-value =0.036 which is less than 0.05

hence, null hypothesis is rejected means H_{03} the total equity has significant impact after reporting under Ind AS. The total revenue p-value =0.036 which is less than 0.05 hence, null hypothesis is rejected means H_{04} the total revenue has significant impact after reporting under Ind AS. The net profit p-value =0.532 which is greater than 0.05 hence, accept null hypothesis H_{05} net profit do not have significant impact after reporting under Ind AS.

CONCLUSIONS

The study analyses the impact of Ind AS on few key accounting variables of 15 selected Indian companies who have adopted Ind AS in the year 2016. The variables taken from the balance sheet and profit and loss account are tested to find significant differences statistically. The overall results show that three variables namely total assets, total equity and total revenue have significant impact after the adoption of Ind AS while the total liabilities and net profit does not have significant difference statistically. Since the companies are adopting for the first time it is important to know the effect of Ind AS on the variables. The standards that have felt the impact are like Ind AS 18 revenue recognition and assets like PPE Ind AS 16 due to fair valuation, income taxes Ind AS 12 having impact on net profit and net worth [4]. The impact analysis on key performance variables differ sector-wise based on adoption of the standard.

References

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Appendix

Table:1 Descriptive statistics

	Min	Max	Mean	Std. Deviation
TA_IGAAP	715.4	269297.6	58209.01	87072.66
TA_INDAS	682.52	273754.36	62635.09	93218.50
TL_IGAAP	108.47	187626.67	37322.08	60599.73
TL_INDAS	71.86	215239.3	39083.04	66630.02
TE_IGAAP	606.93	81670.93	21242.67	29077.33
TE_INDAS	540.74	104000.66	23793.59	33076.25
TR_IGAAP	347.87	358172.7	81755.14	116823.82
TR_INDAS	328.42	457598.23	94882.85	140035.95
NP-IGAAP	39.17	24291.82	4951.46	6583.00
NP_INDAS	10.88	26357	5681.95	7916.17

Source: Author’s computation using SPSS statistics version 20

Table:2 Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
TA_IGAAP	0.326	15	0	0.685	15	0
TA_INDAS	0.319	15	0	0.682	15	0
TL_IGAAP	0.334	15	0	0.651	15	0
TL_INDAS	0.365	15	0	0.632	15	0
TE_IGAAP	0.286	15	0.002	0.711	15	0
TE_INDAS	0.266	15	0.005	0.727	15	0
TR_IGAAP	0.327	15	0	0.736	15	0.001
TR_INDAS	0.329	15	0	0.726	15	0
NP-IGAAP	0.235	15	0.025	0.749	15	0.001
NP_INDAS	0.254	15	0.01	0.734	15	0.001

a. Lilliefors Significance Correction

Source: Author’s computation using SPSS statistics version 20