FINANCE INDIA
© Indian Institute of Finance
Vol. XXXIV No. 2, June 2020
Pages—317-332

Does the Transition to Ind-AS increase the value relevance of Financial Statements ? Empirical Analysis of Top Listed Firms in India

MANPREET KAUR*
SURENDRA S. YADAV**

Abstract

In order to align with the global standards, Indian companies have adopted Ind-AS (Indian Accounting Standard Converged with IFRS) from 1st April 2017 to report their financial information and streamline the reporting practice. In this backdrop, this study is an attempt to provide an insight on how this transition will affect the value relevance of financial reporting by Indian companies. We draw insights from Ohlson model of value relevance to investigate whether the financial statements after adoption of Ind-AS have become more value relevant or not. Our findings indicate that the earnings of the company have become more value relevant in post adoption period as compared to pre-adoption period. However, book value which was value relevant in pre-adoption period is no longer value relevant for investors of the select companies after Ind-AS adoption. Further, industry specific results measuring the impact on value relevance are mixed which generate scope for further research on specific sectors.

I. Introduction

TODAY, COUNTRIES ALL over the world are moving towards globalization with capital markets becoming increasingly global. As a result of this globalization and financial integration, there is an indispensable need for a common set of standards in financial reporting. This is more so now that companies are no longer confined to domestic boundaries, but are influenced by this global presence. Expanding cross-border transactions and investment are driving increased interest as well as pressure to enhance the quality of financial reporting throughout the world. A major breakthrough came in 2002, when the European Union (EU) adopted legislation that required every listed company in Europe to implement the International Financial Reporting Standard (IFRS) in their consolidated financial statements. This legislation came into effect in 2005 and applied

* Associate Professor, Bharati Vidyapeeth Institute of Management and Research, Department of Management, A-4, Paschim Vihar, Rohtak Road, Delhi 110063, INDIA
** Professor and Former HOD, Indian Institute of Technology, Department of Management Studies, Viswakarma Bhavan, Shaheed Jeet Singh Marg, Delhi 110016, INDIA

Submitted December 2018; *Accepted* February 2020

This study, therefore, has examined the preliminary impact of Ind-AS on the value relevance of accounting information, as these standards were only implemented recently, and it has serious implications for a few industry types where the results are counterintuitive and call for further investigation. Also, the impact on accounting quality after adopting Ind-AS could be examined using earnings management, earnings timeliness and credit relevance approach not used in this study. A cross-country study of emerging economies could be carried out for generalization. There is no doubt that the transition to Ind-AS has been an uphill task for Indian companies due to significant differences between GAAP and Ind-AS, but it was made easier by the government through its phased implementation. Banks and insurance companies which have not yet implemented them can go ahead with adopting new standards, as our study concludes that Ind-As enhances the accounting quality by making it more value relevant. They can revisit the changes made during phase 1 in terms of internal controls, modification of IT system and processes etc. for a smoother transition. It can be safely concluded that adopting Ind-AS in India has moved the nation a step closer towards being transparent, internationally competitive and viable in the areas of financial reporting.

References

Agostino, M., D. Drago and D.B. Silipo, (2011), "The value relevance of IFRS in the European banking industry", *Review of Quantitative Finance and Accounting,* Vol. 36, No. 3, pp. 437–457

Ahmed, A. S., M. Neel and D.Wang, (2013), "Does Mandatory Adoption of IFRS Improve Accounting Quality? Preliminary Evidence", *Contemporary Accounting Research*, Vol. 30, No. 4, pp. 1344–1372.

Amir, E., T. S. Harris and E. K. Venuti (1993), "A Comparison of the Value-relevance of U.S.Versus Non-U.S. GAAP Accounting Measures using Form20-F Reconciliations", *Journal of Accounting Research*, Vol. 31, pp. 230-64.

Aubert, F. and G. Grudnitski, (2011), "The Impact and importance of mandatory adoption of IFRS in Europe", *Journal of International Financial Management & Accounting*, Vol. 22, No. 1, pp. 1-26

Barth, M., W. Beaver, and W. Landsman, (2001), "The relevance of value relevance literature for financial accounting standard setting: another view", *Journal of Accounting and Economics,* Vol. 31, pp. 77-104.

Ball, R. and P. Brown, (1968), "An empirical evaluation of accounting income numbers", *Journal of Accounting Research,* Vol. 6, No. 2, pp. 159-178

Barth, M., W, Landsman and M. Lang (2008), "International Accounting Standards and Accounting Quality", *Journal of Accounting Research*, Vol. 46, No. 3, pp. 467–498.

Bartov, E., S.R. Goldberg and M. Kim, (2005), "Comparative value relevance among German, U.S. and international accounting standards: a German stock market perspective", *Journal of Accounting, Auditing and Finance*, Vol. 20, pp. 95–119

Bartulovic, M. and I. Pervan,(2014), "Value relevance of accounting information: evidence from South Eastern European countries", *Economic Research,* Vol. 27, No. 1, pp. 181-190

© Indian Institute of Finance

Barry,C.cand S. Brown, (1985), "Differential information and small firm effect", *Journal of Financial Economics,* Vol. 13, pp. 283-294

Callao, S., J.I. Jarne and J.A. Laínez, (2007), "Adoption of IFRS in Spain: effect on the comparability and relevance of financial reporting", *Journal of International Accounting, Audit and Taxation,*Vol. 16, No. 2, pp. 148–178

Chamisa, E. E. (2000), "The relevance and observance of the IASC standards in developing countries and the particular case of Zimbabwe", *International Journal of Accounting,* Vol. 35, pp. 267-286

Chebaane, S. and Othman, H. (2014), "The Impact of IFRS adoption on value relevance of Earnings and Book value of equity: The case of emerging markets in African and Asian regions", *Procedia, Social and Behavioral Science,* Vol. 145, pp. 70-80

Chen H., Q. Tang, Y. Jiang and Z. Lin (2010), "The Role of International Financial Reporting Standards in Accounting Quality: Evidence from the European Union", *Journal of International Financial Management and Accounting*, Vol. 21, No.3, pp. 220-278

Christensen, H.B., E. Lee, M. Walker and C. Zeng, (2015), "Incentives or standards: what determines accounting quality changes around IFRS adoption?" *European Accounting Review,* Vol. 24, No. 1, pp. 31–61

Christopher, B. Barry and Stephen J. Brown (1985), "Differential Information and Security Market Equilibrium", *Journal of Financial and Quantitative Analysis,* Vol. 20, pp. 407-422.

Clarkson, P., Hanna, J.D., Richardson, G.D., Thompson, R., (2011), "*The Impact of IFRS Adoption on the Value Relevance of Book Value and Earnings*", Working Paper University of Queensland

Coopers & Lybrand. (1993), "*International Accounting Summaries: A guide for interpretation and comparison*", (2nd edition), Wiley, New York.

Daske, H. and G. Gebhardt, (2006), "International financial reporting standards and experts' perceptions of disclosure quality", *Abacus,* Vol. 42, pp. 461–498

Daske, H., L. Hail, C. Leuz and R. Verdi, (2008), "Mandatory IFRS reporting around the world: Early evidence on the economic consequences", *Journal of Accounting Research*, Vol. 46, pp. 1085-1142.

Devalle, A., E. Onali and R. Magarini, (2010), "Assessing the value relevance of accounting data after the introduction of IFRS in Europe", *Journal of International Financial Management and Accounting,* Vol. 21, pp. 85–119

Diamond, D. and R. Verrecchia, (1991), "Disclosure, liquidity and cost of capital", *Journal of Finance,* September-1991, pp. 1325-1360.

Dumontier, P. and B. Raffournier, (1998), "Why firms comply voluntarily with IAS: An empirical analysis with Swiss data", *Journal of International Financial Management and Accounting,* Vol. 9, No. 3, pp. 216 -245.

Elshandidy, T. (2014), "Value relevance of accounting information: Evidence from emerging market", *Advances in Accounting,* Vol. 30, No. 1, pp. 176-186

Eng L. and T. Vichitsarawong (2016), "Usefulness of Accounting Estimates: A tale of two countries (India and China)", *Journal of Accounting, Auditing and Finance*, Vol. 32, No. 1, pp. 123-135

Feltham, G., and J.A. Ohlson, (1995), "Valuation and clean surplus accounting for operating and financial activities", *Contemporary Accounting Research*, Vol. 11, pp. 689–731

© Indian Institute of Finance

Haller, A., J. Ernstberger and M. Froschhammer, (2009), "Implications of the mandatory transition from national GAAP to IFRS—empirical evidence from Germany", *Advances in Accounting,* Vol. 25, pp. 226–236

Hellman, N. (2011), "Soft Adoption and Reporting Incentives: A Study of the Impact of IFRS on Financial Statements in Sweden", *Journal of International Accounting Research,* Vol. 10, No. 1, pp. 61–83

Hung, M. and K.R. Subramanyam, (2007), "Financial statement effects of adopting international accounting standards: the case of Germany", *Review of Accounting Studies,* Vol. 12, No. 4, pp. 623–657

Jarva, H. and A.M. Lantto, (2012), "Information content of IFRS versus domestic accounting standards: evidence from Finland", *The Finnish Journal of Business Economics,* Vol. 2, pp. 141–177

Kamath, R. and R. Desai, (2014), "The impact of IFRS adoption on the Financial Activities of companies in India: An Empirical Study", *The IUP Journal of Accounting Research and Audit Practices,* Vol. XIII, No. 3, pp. 25-36

Kantayya, R. and V. Panduranga, (2017), "A Comparative Study of Balance Sheets Prepared under Indian GAAP and IFRS with Special Reference to Select IT Companies", *Management Today,* Vol. 7, No. 2, pp. 75-85

Kaur, M., A. Khatua and S.S. Yadav, (2016), "Infrastructure development and FDI Inflow to Developing Economies: Evidence from India", *Thunderbird International Business Review,* Vol. 58, No. 6, pp. 555-563

Kosi, U. (2010), "Credit relevance of accounting information and mandatory IFRS adoption", *An Enterprise Odyssey International Conference Proceedings*, pp. 662-683.

Lambert, R. A. (2003), "Discussion of Limited Attention, Information Disclosure, and Financial Reporting", *Journal of Accounting and Economics*, Vol. 36, No. 1-3, pp. 387-400

Lantto, A. and P. Sahlstrom, (2009), "Impact of international Financial reporting standard on key financial ratios", *Accounting and Finance*, Vol. 49, No. 2, pp. 341-361

Larson, R. K. and D. L. Street (2004), "Convergence with IFRS in an expanding Europe: Progress and Obstacles Identified by Large Accounting Firms' Survey", *Journal of International Accounting, Auditing and Taxation*, Vol. 13 No. 2, pp. 89-119

Lenormand, G. and L. Touchais, (2009), "Do IFRS improve the quality of financial information? A value relevance approach", *Comptabilité –Contrôle – Audit,* Vol. 15, No. 2, pp. 145-164

Leuz, C. and R.E. Verrecchia, (2000), "The Economic Consequences of Increased Disclosure", *Journal of Accounting Research,* Vol. 38, Supplement 2000, pp. 91–124

Levtt, A., (1998), "The Importance of High Quality Accounting Standards", *Accounting Horizons,* Vol. 12, pp. 79-82

Li, S., (2010), "Does Mandatory Adoption of International Financial Reporting Standards in the European Union Reduce the Cost of Equity Capital?", *The Accounting Review*, Vol. 85, pp. 607-636

Liu, C. and O'Farrell, G., (2010), "Empirical Test on the removal of reconciliation requirement from IFRS to US-GAAP", *International Journal of Managerial and Financial Accounting*, Vol. 2, No. 2, pp. 123-133

Lopes, C., Cerqueira, A., Brandão, E. (2010), "Impact of IFRS adoption on accounting quality in European firms", *Journal of Modern Accounting and Auditing,* Vol. 6, No. 9, pp. 20-31

Masca, E. and R. Neag, (2014), "*Accounting conservatism in Europe: a literature review*", Proceedings of the 2nd International Scientific Conference IFRS: Global Rules and Local Use, Anglo-American University, Prague, Czech Republic, pp. 113-127

Muniraju, M. and S.R. Ganesh, (2014), "IFRS Convergence and its applicability on Indian corporate sector", *International Journal of Research in Commerce, Economics and Management,* Vol. 4, No. 4, pp. 14-19

Nobes C., (2006), "The survival of international differences under IFRS: Towards a research agenda", *Journal of Accounting and Business Research*, Vol. 36, No. 3, pp. 233-245

Ohlson, J. A., (1995), "Earnings, book values, and dividends in security valuation", *Contemporary Accounting Research,* Vol. 11, pp. 661-687

Ohlson, J. A., (1991), "The theory of value and earnings, an introduction to the Ball-Brown analysis", *Contemporary Accounting Research,* Vol. 8, pp. 1–19.

Pelucio-Grecco, M.C., C.M.S. Geron, G.B. Grecco and J.P.C. Lima, (2014), "The effect of IFRS on earnings management in Brazilian non-financial public companies", *Emerging Markets Review*, Vol. 21, pp. 42–66

PwC (2016), "*PwC Ind-AS Impact Analysis*", PwC Publications, Price Water Coopers LLP.

Ray, S. (2012), "Indian GAAP and Its Convergence to IFRS: Empirical Evidence from India", *Advances in Applied Economics and Finance*, Vol. 2, No. 1, pp. 275-276

Samuels, J. M., and J.C. Oliga, (1982), "Accounting standards in developing countries", *International Journal of Accounting Education and Research*, Vol. 18, pp. 69-88

Tsalavoutas, I., P. André and L. Evans, (2012), "The transition to IFRS and the value relevance of financial statements in Greece", *British Accounting Review,* Vol. 44, pp. 262–277

Brochet, F., Jagolinzer, A., and Riedl, E. J. (2013), "Mandatory IFRS Adoption and Financial Statement Comparability", *Contemporary Accounting Research,* Vol. 30, No. 4, pp. 1373-1400

Van Der Meulen, S., A. Gaeremynck and M. Willekens, (2007), "Attribute differences between U.S. GAAP and IFRS earnings: an exploratory study", *International Journal of Accounting,* Vol. 42, pp. 123–142

Yip, R. and D. Young, (2012), "Does mandatory adoption Improve Information Comparability?" *The Accounting Review,* Vol. 87, No. 5, pp. 1767-1789

Zeghal, D., S.M. Chtourou and Y.M. Fourati, (2012), "The Effect of Mandatory Adoption of IFRS on Earnings Quality: Evidence from the European Union", *Journal of International Accounting Research,* Vol. 11, No. 2, pp. 1–25

© Indian Institute of Finance