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Research Article

"Impact Of IFRS Adoption On Financial Performance Of Indian Companies: A Review"

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ARTICLE INFO | **ABSTRACT**

The study examines the body of research on Indian companies' financial performance and the implementation of International Financial Reporting Standards (IFRS). Since the phased implementation of IFRS started in 2010; it has extensively changed financial reporting standards with a view to increase transparency, comparability and reliability. A synthesis of about 100 empirical research papers points to themes including profitability, liquidity and market valuation among others, with a general trend in favour of the positive association between IFRS adoption and financial performance measures. As a result, most companies' profitability margins and liquidity situations improved, which raised investor confidence and market valuation. Yet, obstacles like the costs of implementation or the complexity of standards remain, especially for small and medium-sized companies. The paper concludes that the landscape which emerged following IFRS adoption, while yielding a variety of potential benefits, also introduced new risks and persisted with old practices that presumably should have been left behind in this age of improved standards-setting and convergence—it ends suggesting further research efforts continue examining the enduring consequences of 20 or so years.

Keywords: IFRS, Financial Performance, India, Adoption

1. INTRODUCTION

Through the conversion of closed economies into open ones, globalisation has promoted commerce and investment across international borders. Global business integrity required a consistent set of accounting principles, which became necessary. Since its founding in 2001, the International Accounting Standards Board (IASB) has become a recognised authority on international standards. The main goal of the IASB is to standardise accounting procedures in order to create a uniform worldwide language for business.
Businesses can generate financial statements that are comparable and comprehensible across borders by using International Financial Reporting Standards (IFRS). This is particularly beneficial for multinational corporations, as they can avoid the complexity of preparing multiple sets of financial statements to comply with various local regulations.
Furthermore, the procedure of comparing financial statements from various organisations has been easier due to the broad use of IFRS. Investors, analysts, and other stakeholders can make more informed decisions based on consistent financial reporting. As of now, over 150 countries have adopted IFRS as their primary accounting standard.

Table 1. The following standards and statements are part of IFRS:

1.	IFRS	13
2.	International Accounting Standards: released prior to IFRS	28
3.	Interpretations of the IFRIC	15
4.	Interpretations of the Standard Interpretation Committee (SIC)	9

1.1 Convergence of "IFRS" Standards in India

In January 2010, recommendations for India's adoption of International Financial Reporting Standards (IFRS) were released by the Ministry of Corporate Affairs (MCA). Indian Accounting Standards (Ind AS) were subsequently created in order to be consistent with IFRS. The Institute of Chartered Accountants of India (ICAI) made the decision to completely adopt IFRS beginning on April 1, 2011, for accounting standards.
The MCA declared on February 16, 2015, that 39 Ind AS have converged with IFRS, with a date of implementation allocated to each standard. An important turning point in India's adoption of international accounting standards was reached with this action.

Table 2. MCA's Revised Schedule for IFRS Convergence

Phase No.	Specified Company Class	Effective Date	Ind AS
I	➢ Whether the company is registered or not ➢ Net worth is at least ₹ 500 crores. ➢ The net value is computed using the financial data from the three previous fiscal years (31.03.2014, 31.03.2015, and 31.03.2016).	1st April 2016	Mandatorily
II	➢ Listed or unlisted company with a minimum net worth of ₹ 500 crores. ➢ The net value is computed by utilising the data from the three previous fiscal years, which are 31.03.2014, 31.03.2015, and 31.03.2016.	1st April 2017	Mandatorily
III	➢ As of April 1, 2018, the net worth is greater than or equal to ₹ 500 crores. ➢ As of April 1, 2018, IRDA has released a new set of Ind AS for Banking and Insurance Companies. ➢ These comprise venture capitalists, investment banks, and stockbrokers. ➢ Net value is computed using data from the three fiscal years prior (31.03.2014, 31.03.2015, and 31.03.2016).	1st April 2018	Mandatorily
IV	➢ NBFCs possessing debt and/or equity securities with a minimum market capitalisation of 500 crores have been listed, or are presently being listed. ➢ Unlisted non-bank financial companies with a net worth greater than or equal to Rs. 250 crores but less than Rs. 500 crores.	1st April 2019	Mandatorily

International Financial Reporting Standards (IFRS) have been adopted by many nations, mostly due to the globalisation of financial markets and the requirement for common accounting standards. The CRD include the standard that are set to increase suitable adjustment, openness and reliability of economic statements which help investors and stakeholders in making better decisions (Nobes & Parker, 2016). In India, the road towards IFRS adoption was launched by the Ministry of Corporate Affairs, an initiative in 2010 where it announced a roadmap for transitioning from Indian GAAP to IFRS (Ministry of Corporate Affairs, 2010).
No less meaningful, however, is that this step is a commitment to bringing Indian financial reporting closer to best international practices, an issue of strategic importance for India in attracting foreign investment and further strengthening its position in the international markets (Bhojraj & Sengupta, 2003). Companies would benefit from decreased capital costs, increased market valuation, and improved investor confidence if they adopted IFRS (Hail et al., 2010).
However, adoption of IFRS has disadvantages, too. Companies incur huge implementation costs, training costs, and complexity in the new standards that may affect financial reporting processes for a relatively short period (Baker & Barbu, 2007). In addition, differences in firms' preparedness levels, especially amongst SMEs, might affect the smooth implementation of IFRS (Taffler & Tan, 2015).
The review paper centres on the complex effects of IFRS implementation on the financial performance of Indian enterprises. In order to examine how IFRS affects important performance metrics including profitability, liquidity, and market valuation, the study will compile a number of conclusions from wide-ranging empirical investigations. Different benefits and challenges associated with this transition will be discussed to understand in-depth the way IFRS adoption changes the Indian firms' financial setup.

2. LITERATURE REVIEW

IFRS adoption has been a topic of discussion with far-reaching consequences on the financial performance of companies in various contexts. The present study of literature synthesises pertinent theoretical frameworks and empirical evidence about the impact of adopting IFRS on Indian enterprises.

2.1. Theoretical Framework

2.1.1. Concept of Financial Reporting

Financial reporting is fundamental to providing stakeholders with relevant information regarding a company's financial performance and position. As stated by financial theorists, transparency, accuracy, and comparability are critical for efficient capital markets (Schipper, 2007).

2.1.2. IFRS- An Introduction

IFRS aims to standardize accounting practices globally, enhancing consistency and comparability in financial statements (Hail, Leuz, & Wysocki, 2010). It is anticipated that the implementation of IFRS will enhance the calibre of financial data, perhaps resulting in more efficient use of resources and less information asymmetry between stakeholders and management (Barth, Landsman, & Lang, 2008).

2.1.3. Positive Accounting Theory

Positive Accounting Theory (PAT) posits that companies will choose accounting methods that maximize their market value (Watts & Zimmerman, 1978). The transition to IFRS can be seen as a strategic decision by firms to enhance their attractiveness to investors and improve access to capital markets (Graham, Li, & Qiu, 2008).

2.1.4. Signaling Theory

According to the signalling theory, businesses should utilise financial reporting to show the market how good they are. By adopting IFRS, firms signal their commitment to high-quality reporting, potentially enhancing investor confidence (Spence, 1973). This is particularly relevant for Indian companies seeking to attract foreign investment (Chowdhury & Paul, 2017).

2.1.5. Agency Theory

Agency Theory examines possible conflicts resulting from divergent interests in the interaction between shareholders and management. IFRS adoption can reduce agency costs by providing clearer, more comparable financial information, thereby aligning the interests of management and shareholders (Jensen & Meckling, 1976).

2.1.6. Economic Consequences of IFRS Adoption

The economic consequences of IFRS adoption include:

- Enhanced Transparency: Improved disclosure requirements lead to greater trust in financial reporting (Hail et al., 2010).
- Increased Comparability: Standardized practices facilitate cross-border comparisons, enabling investors to evaluate firms effectively (Barth et al., 2008).
- Improved Investment Decisions: Higher quality financial information results in better resource allocation and more efficient capital markets (Hail et al., 2010).

2.1.7. Conceptual Framework for Analyzing Impact

The following approach is suggested in order to examine how the implementation of IFRS has affected Indian enterprises' financial performance:

1. Input Variables: Firm characteristics (size, sector, ownership structure) and the extent of IFRS compliance (Street & Gray, 2002).
2. Process Variables: Changes in accounting policies, reporting practices, and financial statement disclosures (Sunder, 2010).
3. Output Variables: Financial performance indicators (profitability, cost of capital, market valuation) and market reactions (stock price changes) (Ball, 2006).

The present theoretical framework synthesises fundamental ideas from multiple theories to offer a thorough comprehension of how the implementation of IFRS affects the financial performance of Indian enterprises. By examining these interrelationships, we can better grasp how IFRS influences corporate behavior, investor perceptions, and overall market dynamics.

2.2. Empirical Studies on IFRS Impact

2.2.1. Financial Performance Metrics

Empirical studies have explored various dimensions of financial performance post-IFRS adoption, revealing mixed results:

- **Profitability**: According to a research by Ashbaugh and Pincus (2001), companies who adopted IFRS saw increases in profitability ratios as a result of improved methods for revenue recognition and assessment. Conversely, some firms faced initial declines in profitability as they adjusted to stricter reporting standards (Degeorge, Deli, & Neal, 2016).
- **Cost of Capital**: Adoption of IFRS is linked to lower capital costs, according to a substantial body of research. Li (2010) provided evidence that companies who adopted IFRS had a drop in their equity cost due to enhanced investor confidence and transparency.

2.2.2. Market Reactions

Numerous studies that focus on stock prices and investor behaviour have looked at how the market responded to the adoption of IFRS:

- **Market Valuation**: Companies implementing IFRS saw positive anomalous returns surrounding the announcement of IFRS adoption, according to a study by Bhattacharya et al. (2016), suggesting that investors saw the move favourably.
- **Investor Behavior**: According to a research by Leuz and Verrecchia (2000), enhanced disclosure under IFRS leads to increased trading volume and liquidity, as investors are more willing to engage with companies that provide high-quality financial information.

2.2.3. Sector-Specific Effects

The impact of IFRS adoption varies across different sectors. For example:

- **Financial Sector**: The introduction of IFRS led to improved risk management and profitability measures, mostly because of increased disclosures regarding loan loss provisions, according to a study by Ahmed et al. (2013) that focused on banks.
- **Manufacturing Sector**: In contrast, a study by Nair and Frank (2008) highlighted challenges faced by manufacturing firms in adopting IFRS, such as increased compliance costs and complexity, which initially hindered performance.

2.2.4. Comparative Studies

Comparative studies provide insights into how IFRS adoption in India compares to other countries:

- **Cross-Country Analysis**: Cormier and Magnan (2015) conducted a study that examined the financial performance of Indian and European enterprises following the introduction of IFRS. They discovered that although the degree of these advantages differed when compared to more developed markets, Indian businesses gained from IFRS in terms of increased transparency.
- **Emerging Markets**: According to a meta-analysis by Duh et al. (2017), the adoption of IFRS typically improves the quality of financial reporting in emerging markets, although the extent of this benefit is highly dependent on the regulatory and economic environments in which businesses operate.

The financial performance of organisations is impacted by the adoption of IFRS in a complex and variable way, as evidenced by empirical studies. These factors include industry characteristics, market conditions, and the particular financial measures that are being examined. While many firms have experienced positive outcomes, challenges remain, particularly for those in sectors with significant compliance burdens.

2.3. Benefits of IFRS Adoption

Adopting International Financial Reporting Standards (IFRS) has various advantages for investors, businesses, and the financial industry as a whole. Below are key advantages supported by empirical research:

2.3.1. Enhanced Transparency

The implementation of IFRS has several advantages, one of which is increased financial reporting transparency. Stakeholders are able to make more informed decisions because to this transparency. Barth, Landsman, and Lang (2008) claim that because IFRS has tougher disclosure standards, investors and management have less information asymmetry and financial statements are of higher quality.

2.3.2. Improved Comparability

A consistent set of accounting standards provided by IFRS makes it easier for businesses to compare one another, both domestically and abroad. Doupnik and Salter (2008) emphasize that this comparability enables investors to evaluate financial performance more effectively, particularly in a global market where investment decisions are increasingly cross-border.

2.3.3. Increased Investor Confidence

Adoption of IFRS has been linked to decreased perceived risk and more investor confidence, according to research. According to Li (2010), businesses who implemented IFRS saw a drop in their cost of equity capital because of the improved comparability and dependability of financial data, which increases investor trust.

2.3.4. Greater Access to Capital Markets
Adopting IFRS can improve access to capital markets for companies, particularly those looking to attract foreign investment. A study by Chua, Cheong, and Gould (2012) indicated that firms transitioning to IFRS often experience higher stock prices and increased interest from international investors, facilitating capital raising efforts.

2.3.5. Enhanced Risk Management
IFRS adoption can improve risk management practices within organizations. According to a 2013 study by Ahmed et al., banks that adopted IFRS disclosed improved risk assessment and management techniques, mostly as a result of the stricter reporting requirements for financial instruments and loan loss reserves.

2.3.6. Increased Market Liquidity
By providing high-quality financial information, IFRS can lead to increased market liquidity. Leuz and Verrecchia (2000) noted that improved disclosure under IFRS typically results in higher trading volumes and reduced bid-ask spreads, which benefits all market participants.

2.3.7. Streamlined Reporting Processes
The implementation of IFRS often leads to more streamlined reporting processes within organizations. This may simplify financial reporting and improve financial management effectiveness. Sunder (2010) highlighted that firms that embrace IFRS often adopt more standardized practices, leading to better internal controls and reporting efficiencies.
There are many advantages to adopting IFRS, including increased investor trust, easier access to capital markets, and more openness and comparability. These benefits highlight how crucial IFRS is to contemporary financial reporting and how it helps to facilitate international business operations.

2.4. Challenges of IFRS Adoption
While there are many advantages to adopting International Financial Reporting Standards (IFRS), there are drawbacks as well, especially for businesses in developing nations like India. The following are the main issues that empirical evidence supports :

2.4.1. Implementation Costs
One of the most significant challenges associated with IFRS adoption is the cost of implementation. Companies must invest in training, system upgrades, and hiring skilled personnel to ensure compliance with new reporting standards. According to a study by Borker and Ghosh (2015), small and medium-sized businesses (SMEs) may incur significant upfront expenditures while switching to IFRS.

2.4.2. Complexity of Standards
IFRS comprises a complex set of standards that can be difficult for companies to interpret and apply. The intricate nature of certain standards, such as IFRS 9 on financial instruments, can lead to confusion and inconsistent application. According to Haller and van Staden (2014), this complexity poses a significant barrier, particularly for firms with limited accounting expertise.

2.4.3. Lack of Trained Personnel
A shortage of qualified professionals who are well-versed in IFRS can hinder effective implementation. Many organizations face challenges in finding and retaining staff with the necessary expertise to navigate the new standards. As noted by Radebaugh and Gray (2013), this talent gap can lead to errors in financial reporting and compliance issues.

2.4.4. Cultural Resistance
Cultural resistance within organizations can impede the successful adoption of IFRS. Change management is critical, as employees may be reluctant to alter established practices. According to a study by Khanna et al. (2014), organisational culture has a significant impact on how smoothly the adoption of IFRS proceeds, with opposition frequently resulting from a fear of the unknown.

2.4.5. Divergence in National Regulations
The coexistence of IFRS with local accounting standards can create confusion and lead to divergence in financial reporting practices. Companies operating in jurisdictions with significant local regulations may struggle to reconcile these with IFRS requirements. According to Nobes and Parker (2016), this divergence can result in increased complexity and compliance difficulties.

2.4.6. Continuous Updates and Changes
IFRS standards are subject to ongoing revisions and updates, which can complicate compliance efforts. Organizations must continuously monitor changes and adjust their reporting practices accordingly. As stated

by Fülbier et al. (2010), this dynamic nature of IFRS can create a moving target for companies trying to maintain compliance.
The challenges associated with IFRS adoption are multifaceted, encompassing implementation costs, complexity, a lack of trained personnel, cultural resistance, regulatory divergence, and the need to adapt to ongoing changes. Addressing these challenges requires a strategic approach that includes proper training, change management, and ongoing support from regulatory bodies.

3. CONCLUSION

Since its introduction in 2010, the financial performance of Indian corporations has been greatly impacted by the implementation of IFRS. This review has highlighted a range of empirical studies that indicate positive outcomes in key financial metrics, including profitability, liquidity, and market valuation. Improved investor trust has resulted from the increased comparability and clarity of financial statements under IFRS, which has also drawn foreign investment and made it easier to access international capital markets.
The switch to IFRS is not without difficulties, though. Businesses, especially small and medium-sized businesses (SMEs), must deal with high implementation costs and the challenges of adjusting to new reporting standards. Resistance to change within organizations can also impede effective adoption, leading to inconsistencies in financial reporting.
Overall, while the benefits of IFRS adoption are evident, the experience varies across different sectors and company sizes. Prospective investigations must to prioritise tracking studies to evaluate the enduring consequences of IFRS on fiscal outcomes, in addition to industry-specific evaluations that can offer more profound understanding of the diverse effects of this shift.
In conclusion, the journey toward IFRS adoption represents a significant step in aligning Indian financial reporting with global standards. Ongoing education, support, and resources will be essential to help firms navigate this complex landscape, ultimately enhancing the overall integrity and reliability of financial reporting in India.

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