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ANALYZE THE IMPACT OF IFRS ADOPTION ON THE QUALITY OF FINANCIAL REPORTING, TRANSPARENCY, AND COMPARABILITY IN EMERGING MARKETS

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Abstract:

The adoption of International Financial Reporting Standards (IFRS) by emerging markets marks a transformative phase in their financial reporting landscape. This research seeks to investigate the multifaceted impact of IFRS adoption on the quality of financial reporting, transparency, and comparability within emerging markets. The study employs a mixed-methods approach, combining quantitative analysis of financial statements and qualitative assessments of regulatory frameworks and institutional changes. The research aims to identify the key drivers influencing the decision to adopt IFRS in emerging markets and assess the challenges encountered during the implementation process. The evaluation of financial reporting quality encompasses an examination of reporting consistency, accuracy, and relevance in the post-IFRS adoption period. Transparency is gauged through an analysis of the disclosure practices, with a focus on the extent to which companies provide relevant information to stakeholders. Comparability is assessed by exploring how the adoption of IFRS enhances or alters the ability to compare financial information across entities and jurisdictions.

Through a comparative analysis of pre- and post-adoption financial reporting practices, this research aims to contribute insights into the overall effectiveness of IFRS adoption in improving the reliability and transparency of financial information in emerging markets. Additionally, the study seeks to identify any residual challenges and propose recommendations for addressing them, ultimately providing a comprehensive understanding of the impact of IFRS adoption on financial reporting in the dynamic context of emerging markets.

Keywords: IFRS, Globalization, GAAP, Financial Reporting

Introduction:

The globalization of financial markets has prompted many emerging economies to align their accounting standards with the International Financial Reporting Standards (IFRS). The adoption of IFRS is often viewed as a critical step toward enhancing the quality of financial reporting, transparency, and comparability in these burgeoning markets. This research embarks on a comprehensive exploration of the consequences of IFRS adoption, delving into its intricate implications within the context of emerging markets. The decision of emerging markets to transition to IFRS reflects a strategic move towards harmonizing accounting practices with global standards. Motivations behind this shift may range from attracting foreign investment to fostering economic growth through improved financial reporting credibility. Understanding the driving forces behind the adoption of IFRS is imperative for assessing the intended outcomes and potential challenges associated with this transition.

This research seeks to bridge the gap in existing literature by conducting a nuanced analysis that goes beyond the mere acknowledgment of IFRS adoption in emerging markets. We aim to dissect the impact on financial reporting quality, transparency levels, and comparability of financial information. The study acknowledges the inherent diversity among emerging markets and recognizes that the effectiveness of IFRS adoption may vary across different economic, regulatory, and cultural contexts. The assessment of financial reporting quality entails an examination of the accuracy, consistency, and relevance of financial information post-IFRS adoption. Transparency is evaluated through an exploration of disclosure practices, emphasizing the extent to which companies provide pertinent information to stakeholders. Comparability is scrutinized by analyzing the extent to which the adoption of IFRS contributes to or alters the ability to compare financial data across entities and jurisdictions.

As emerging markets navigate the challenges and opportunities presented by IFRS adoption, this research aims to contribute valuable insights that can inform policy decisions, regulatory frameworks, and corporate practices. By shedding light on the multifaceted impact of IFRS adoption in emerging markets, this study aspires to be a significant resource for academics, policymakers, and practitioners alike.

Theoretical Background:

Initially, all international organizations and multinational companies prepared their financial statements in each country in which they operated in accordance with Generally Accepted Accounting Principles (GAAP) published by the International Accounting Standards Committee (IASC) in 1973. Standards (IAS). During this period, Accounting Standards (AS) were published, starting with IAS-1 in December 2000 and ending with IAS 41. It took 27 years for the IASC to be re-established in 2001. Be the International Accounting Standards Board (IASB). When the IASB was established, they agreed to adopt revised standards published by the IASC, known as IAS 1 - 41, although later published standards would follow the so-called International Financial Reporting Standards (IFRS). IFRS has increasingly become a globally accepted standard to meet the needs of an increasingly global business world. Changes to standards requiring quality, transparent and comparable information are welcomed by investors, lenders, financial analysts and other users of financial advice. This allows comparison of financial data prepared by organizations from different parts of the world. Using a single accounting system streamlines cross-border transactions and other financial decisions, improves business performance and reduces financial costs.

Statement of Problem:

Different countries adopt different treatment and presentation standards for the same financial event. This can cause confusion among preparers and users when interpreting the company's financial statements. Financial statements based on a single, generally accepted and used GAAP will enable the world to exchange financial information in a meaningful and reliable manner. This will accelerate the global economy. Thus, an international acceptance has emerged on the use of IFRS in financial statements. India is also following International Financial Reporting Standards and plans to prepare its financial statements as per the gradually revised Indian Accounting Standards (IND AS). There are problems in the participants' knowledge and skills in preparing and understanding financial information according to IND AS. Therefore, this study demonstrates the extent of participants' knowledge and understanding of IFRS convergence and its impact on financial reporting.

Review of Literature:

1. ***Emergence of International Financial Reporting Standard in India's Accounting Scenario by Sarbapriya Ray (2017)*** says that the development of IFRS ideally will lead to the worldwide use of a single set of high-quality accounting standards for both domestic and cross-border financial reporting. The demand for those standards is driven b the desire for high quality, internationally comparable financial information that capital providers will find useful for decision-making in global public capital markets.
2. ***Adoption of International Financial Reporting Standards in Developing Countries – The case of Ghana by Antiwar Kofi Ghazi (2018)*** Says that the advent of companies going international or often global has given rise to the need to develop accounting standards that ensure uniformity and standardization of reporting financial information among parent companies and subsidiaries.
3. ***Indian GAAP V/S IFRS by Shamnani Gopichand (2019)*** Says that the convergence with IFRS is set to change the landscape for financial reporting in India. IFRS represents most commonly accepted global accounting framework as it has been adopted b more than hundred countries.
4. ***The impact of International Financial Reporting Standards Adoption of Financial Statements- the case of Nigeria (2019)*** Involvement in training activity when IFRS was introduced and 100% answered yes. Training resources should be readily at affordable price which was mentioned in the demerits of IFRS adoption in Nigeria. If possible the government should subsidize the cost of training resources.
5. ***A Study on Adoption of IFRS, challenges for India by Prashanth Madhukar Shinde (2020)*** Says that successful implementation of IFRS one demands complete SWOT analysis of the industry, proper research, vision and planning. It has to maintain the speed with that of the world in ensuring financial discipline and acceptance of IFRS is the only answer.

Research Gap:

There is a lot to explore in the field of Indian accounting system due to the implementation of the concept of International Financial Reporting Standards (IND AS) and its role in the Indian accounting system and also due to the effective functioning of the country. Researchers reviewed nearly hundreds of research papers/articles/cases related to this study. The above review clearly shows the lack of research in this area. Research has been done in the field of IFRS regarding the Indian accounting system, most of the research has been done in developed countries, but there is no such research in the Indian context. This study attempts to fill this gap. The data show that the authors focus solely on IFRS adoption. They conducted an analysis of the adoption of IFRS by foreigners instead of the Indian accounting system. Therefore, my aim is to investigate the importance of accounting in India by focusing on the impact of the adoption of IFRS (IND-AS).

Need of the study:

Since the world is changing so fast and the borders of a country are different from the dreams in the pictures, and now they are doing business with that country, they should know that these countries are very useful. Although the same work methods and methods are used. There is a need to evaluate the effectiveness of IFRS compliance in developing countries like India.

Objective of the study:

1. To conduct an exhaustive comparison among the current Indian accounting standards, International Financial Reporting Standards (IFRS), and the Indian Accounting Standards harmonized with IFRS.
2. To examine the level of awareness and stakeholders' perceptions regarding the implementation of IFRS in India.
3. To examine the concerns and obstacles encountered by India during the implementation of IFRS.
4. To provide constructive recommendations rooted in the identified insights.

Research Methodology:

The approach employed to gather information and data for the purpose of informing business decisions. This methodology encompasses various research techniques such as published research, interviews, surveys, and other methods, incorporating both contemporary and historical data.

Limitations of the study:

The study exclusively focuses on quantitative aspects and does not encompass qualitative factors. The available dataset for analysis is limited in scope. The examination is restricted to global boards. Additionally, the available data regarding costs for the study is insufficient.

IFRS in India:

Change is not just an accounting problem. In India, IFRS can have a significant impact on a company's day-to-day operations and affect the reporting of the business's own results. The Con release presents an opportunity to re-evaluate financial reporting and adopt a “blank slate” approach to financial policies and procedures. It is important for companies that have an IFRS audit to review their audits because IFRS itself is the target of being regularly moved and updated. Companies should also take into account when auditing that some IFRSs may not be applicable but that their future use may lead to changes in their financial position. Understanding IFRS and its implications is a business imperative for Indian companies.

In July 2014, the Finance Minister in his financial statement said that Indian companies have voluntarily adopted the new Indian Accounting Standards (Ind AS - Converged IFRS Standards) for the Financial Year 2015-16 and will be implemented by the Financial Year 2016-17. In March 2014, the Institute of Chartered Accountants of India (ICAI) submitted a guidance and integration report to the Ministry of Corporate Affairs (MCA) on India's new IFRS. Under the scheme, ICAI has recommended that selected companies use Ind AS only while preparing consolidated financial statements.

Plans for Converging:

The Ministry of Corporate Affairs, Government of India, announced a multi-phase plan to comply with the new Indian Uniform Accounting Standards (India is trying to move closer to IFRS, which has some features that distinguish it from IFRS) in January 2010. 1 April 2011. Regulations, now known as "Ind AS"). MCA launched 35 Ind AS in February 2011. Although these standards are similar to IFRS in many respects, there are some exceptions/changes in some of them, which may lead to significant differences between IFRS and Ind AS for some companies. Consider the conceptual differences between AS and IFRS. Differences between AS, Ind-AS and IFRS compliance – care must be taken in the conversion process. The government of India has initiated a process to reform the legal and regulatory framework by enacting the new Companies Act. Changes will include impact analysis, revision of accounting policies and subsequent changes to accounting and operational systems (e.g. ERP) to comply with Ind-AS or IFRS.

IFRS Adoption Procedure in India:

In an effort to rationalize accounting practices in the country, the Indian government established the Institute of Chartered Accountants of India in 1949 by passing the ICAI Act, 1949. ICAI established the Board of Accountants in 1977 with the aim of creating harmony among various accountants' Indian law and practice. Indian financial experts have developed a three-step process listed below:

Step-1: ***IFRS Impact Assessment*** this marks the initial phase of our process. During this step, our firm will evaluate the ramifications of adopting IFRS on Accounting and Reporting procedures, systems, and the fundamental operations of the entities involved. Subsequently, the firm will determine the crucial conversion dates as outlined in the IFRS training plan. Once the training plan is established, it becomes imperative for the firm to pinpoint the significant Financial Reporting Standards that are applicable and discern the disparities between the existing financial reporting standards adhered to by the firm and those stipulated by IFRS.

Step-2: ***Preparations for IFRS Implementation*** This is the second step in the process and will perform these tasks as required for the IFRS process. The company will then update its internal reporting process and procedures. IFRS initially involves the adoption and implementation of the initial adoption process.

Step-3: ***Implementation*** this represents the concluding phase in the process, focusing on the practical execution of IFRS. The primary step involves crafting an opening Balance Sheet on the transition date to IFRS, a pivotal element in comprehending the actual ramifications of the shift from Indian Accounting Standards. Subsequently, a comprehensive assessment of the transition's impact will be developed, aligning with the complete adoption of IFRS as and when mandated. Initiating the IFRS implementation demands extensive training due to the intricacies involved, accompanied by potential technical challenges. Ensuring a seamless transition from Indian Accounting Standards to IFRS entails ongoing training for personnel and the proactive identification and resolution of issues encountered during the implementation process.

Key Challenges to Implementation:

1. **Modifications to Legal Framework:** The adoption of IFRS is poised to impact existing legal provisions outlined in the Indian Income Tax Act, Companies Act, and other pertinent regulations. Following the implementation of the Companies Act in 2013, the Ministry of Corporate Affairs aims to integrate International Financial Reporting Standards (IFRS) starting April 1, 2015, for companies with a net worth exceeding Rs 1,000 crore. For those with a net worth less than Rs 1,000 crore, convergence with international accounting standards is mandated from the financial year commencing April 1, 2016. Presently, diverse regulators in India govern reporting requirements, with their provisions taking precedence over other laws. It is essential to note that IFRS does not acknowledge such hierarchical legal precedence. Therefore, the alignment of regulatory and legal prerequisites in India presents a significant challenge unless addressed by the respective regulatory bodies.
2. **Impact on Financial Results:** The adoption of IFRS will significantly influence financial outcomes, leading to notable changes in financial reports. An illustration of this lies in the variation in the treatment of depreciation. Consequently, the valuation of assets, as well as the organization's profitability, may undergo fluctuations, ultimately affecting the overall net worth.

3. **User awareness, training and Education:** Many people are yet not aware of IFRS, their complexities and impact. A change in the reporting format will require awareness of these new norms and systems, training and education, both for the professional as well the user. There is a need to impart education and training on IFRS and its application. IFRS had been put on the back burner by the government given issues raised by corporate and unresolved taxation issues. Industry bodies had sought postponement arguing the industry needed more time to prepare
4. **Difference in GAAP and IFRS:** Adopting IFRS means that the entire financial system will require major changes. The difference is big and deep. Raising awareness of IFRS and its impact on users of financial statements will be difficult.
5. **Issue of GAAP Reconciliation:** The US Securities and Exchange Commission (SEC) has issued two options in its proposal, one of which would require the adoption of the IFRS reconciliation first, and the other would require this step in addition to the ongoing transition of financial statements from IFRS to US GAAP to behave. Obviously it's more expensive for companies and investors.
6. **Taxation:** Convergence to IFRS is poised to impact various components within financial statements, leading to a consequential adjustment in tax liabilities. Consequently, it becomes imperative for taxation laws to address the handling of tax obligations arising from the transition from Indian GAAP to IFRS.
7. **Fair Value Management:** IFRS employs fair value as a fundamental measurement basis for valuing a majority of financial statement items. The adoption of fair value accounting may introduce considerable volatility and bias to the financial statements. Additionally, determining fair value requires significant effort, often necessitating the engagement of valuation experts.
8. **Reporting System:** Companies would have to ensure that the existing business reporting model is amended to suit the reporting requirements of IFRS. The information systems should be designed to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc.

Relevance of IFRS in India:

The Indian economy is growing at a good pace and aims to reach 5 trillion US dollars in economic size by 2025, but to achieve this target, the role of direct investment is different, the country and foreign trade cannot be reduced. Even as India is promoting the Make in India programme, foreign investment will continue to play an important role in realizing this dream. IFRS will help foreign investors compare different companies and choose the best as financial statements are prepared according to local standards, it would be difficult for investors to compare financial statements of two companies in different countries. Thus, IFRS solves business problems by following internationally accepted standards.

The second reason for the adoption of IFRS in India is that now many Indian companies have started doing business abroad and these companies have to comply as the accounting standards are similar to ours and this is in addition to the Financial Committee. Auditors must work and comply with the standards of the countries in which they work if they want to be included in their stock exchanges. Audit firms that provide opinions on the financial information of companies outside their home country. Moreover, the above analysis shows that foreign investment has improved and is still at the same level.

IFRS Global Scenario:

Many companies around the world are opening their doors to foreign investment, and today's business is not limited to physical borders. This situation creates the need for some internationally accepted standards, called IFRS and formerly known as IAS. The Group of 19 and the European Union believe that the G20 has an interest in improving the global financial system and that the EU is leading the way in implementing International Financial Reporting Standards.

In May 2002, the European Parliament required that from 1 January 2005 the consolidated financial statements of all companies registered and published in the EU must comply with IFRS. Consider or share international financial models of the United States, Japan, India, Malaysia, Colombia, etc. Current international trends and all G20 countries have adopted or integrated IFRS in some way. The practice in Canada is even greater than in Europe. As of January 1, 2015, all public companies must adopt IFRS. Before this, interest rate management companies and investment companies could opt out of this option. But the situation is not the same, Canada's concept of public accounting organization has been adopted, so now even national organizations are required to adopt IFRS. In the United States (US), US SEC registrants are currently required to use US GAAP but are not allowed to use IFRS, although foreign issuers may use IFRS.

Data collections of Auditors, Experts, Academicians, Students, Awareness and Perception level of Stakeholders on the implementation IFRS: The respondents express their agreement or disagreement with the statement at five levels: Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree. The corresponding values assigned to these levels are 1, 2, 3, 4, and 5, respectively. The levels of agreement with the statement are illustrated in the following table and figure.

Table-1
The alignment with IFRS will enhance the availability of financial information for the advantage of both internal and external stakeholders

Scale	Respondent	%
Strongly Agree	40	40%
Agree	44	44%
Neutral	7	7%
Disagree	4	4%
Strongly disagree	5	5%
Total	**100**	**100%**

Source: Questionnaires

Interpretation: Based on the data presented in the table, it is evident that 44% of the total respondents agree with the statement, "The adoption of IFRS will lead to increased financial information for the benefit of internal and external stakeholders," while an additional 40% strongly agree with the statement. Notably, none of the respondents strongly believe that convergence with IFRS will fail to enhance the availability of financial information for the benefit of both internal and external stakeholders.

Table-2
The alignment with IFRS is expected to bring about positive changes and advancements in Human Resources

Scale	Respondent	%
Strongly Agree	24	24%
Agree	53	53%
Neutral	13	13%
Disagree	7	7%
Strongly disagree	3	3%
Total	**100**	**100%**

Source: Questionnaires

Interpretation: From the data presented in the table, it can be deduced that 24% of the total respondents are in agreement with the statement "The adoption of IFRS will lead to positive changes or improvements in human resources," whereas 53% strongly agree with the statement. None of the respondents strongly disagree that convergence with IFRS will result in positive changes or improvements in human resources.

Table-3

The IFRS Implementation will have impact on many elements of Business Performance Management (BPM) Ecosystem

Scale	Respondent	%
Strongly Agree	29	29%
Agree	46	46%
Neutral	12	12%
Disagree	7	7%
Strongly disagree	6	6%
Total	**100**	**100%**

Source: Questionnaires

Interpretation: From the table above, it is evident that 46% of the total respondents agree with the statement asserting that the implementation of IFRS will impact various elements of the Business Performance Management (BPM) Ecosystem, while 29% express a strong agreement with the statement. Conversely, a notable portion of respondents holds a strong belief that the execution of IFRS will not have a significant impact on various components of the Business Performance Management (BPM) Ecosystem.

Findings:

1. Countries that have adopted IFRS do not have the same level of adoption and implementation as countries that have implemented IFRS.
2. IFRS undergoes various adaptations to facilitate its implementation across diverse countries.
3. Many countries that have already adopted IFRS have yet to implement the standards specifically for small and medium-sized enterprises (SMEs).
4. While most stakeholders believe that the IFRS application process is influenced by Indian laws, only some stakeholders disagree.
5. Due to the convergence of IFRS with India, recognition, measurement and disclosure of financial statements under the Indian Companies Act and the Indian Finance Act have been affected; hence, the Companies Act, 1956 was amended as the Indian Banking Act, 2013 Companies Act. Income Tax Return Scheme (ICDS) has been revised. It is administered by the Central Board of Direct Taxes (CBDT).
6. The Institute of Chartered Accountants of India (ICAI) permits industries to present their financial statements in accordance with either IFRS or Indian GAAP.

Recommendations:

1. Aligned with global best practices, the International Financial Reporting Standards (IFRS), overseen by the International Accounting Standards Board (IASB), should acknowledge the Generally Accepted Accounting Principles (GAAP) of diverse nations in its ongoing assessments. This approach ensures that users can derive global advantages from the standards.
2. IFRS should be integrated into courses at universities, polytechnics and UG level to improve people's skills in supporting the preparation of financial statements in organisations.
3. Ongoing research is essential to align and converge with international standards by fostering mutual understanding of corporate objectives on an international scale.

4. Due to the diverse tax laws across nations, IFRS, guided by the IASB, should address the issue of tax liabilities arising from convergence efforts.
5. In both IFRS and reporting requirements of other nations, addressing disparities between fair value and carrying value is essential when measuring the majority of financial statements.

Conclusion:

Considering the current state of the global economy and India's position within it, the recommendation for convergence with International Financial Reporting Standards (IFRS) is robust. However, it is crucial to acknowledge that this shift towards IFRS adoption is not anticipated to be swift and uncomplicated. The implementation of IFRS necessitates substantial alterations in account formats, adjustments to various accounting policies, and an increased demand for comprehensive disclosure requirements. Consequently, all stakeholders involved in financial reporting must collaboratively shoulder the responsibility for international harmonization and convergence.

IFRS presents distinct advantages and provides India with an opportunity to align itself with universally accepted accounting standards. This alignment stands to alleviate the financial burden on Multinational Corporations (MNCs) and internationally listed companies by eliminating the need for dual accounting and reporting systems. Additionally, it creates a favorable environment for small and mid-sized industries and institutions to engage in global transactions, fostering operational efficiencies and expanding their market exposure.

However, the adoption of IFRS, particularly by smaller and mid-sized industries, poses challenges, notably in terms of a scarcity of expertise and the prohibitive costs associated with changing or upgrading IT systems. To ensure a successful transition and implementation of IFRS, a collective, collaborative, and centralized effort is imperative. Government bodies, financial institutions, the banking sector, corporations, industries, and educational systems must work together seamlessly to facilitate a smooth, efficient, and effective transition to IFRS. This coordinated effort is crucial for the sustained growth and competitiveness of India on the global financial stage.

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