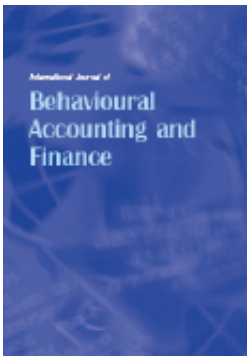

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Abstract: The study investigates the impact of International Financial Reporting Standards convergence (IFRS) on the key financial ratios and balance sheet figures of public sector units listed in India (adopted IFRS first time in 2016–2017). The study used purposive sampling and selected 18 Public Sector Undertakings (PSUs) grouped under the first phase of mandatory adoption in 2016–2017. The study employed the paired T-test and Wilcoxon signed-rank test to test the significant median differences. The analysis is done in three parts; first, key ratios are compared to identify the significant difference between Indian (GAAP) and Indian (AS). Second, absolute figures from the financial statements were also compared, and lastly compared both outcomes to detect the differences. The findings revealed that a statistically significant impact of convergence to Ind AS is on Total Assets, Total Liabilities, and Tangibles. In contrast, in the case of all the other absolute figures like PAT, TCI, and, more importantly, Equity, the impact of convergence is not statistically significant. The originality of the paper lies in measuring the impact of mandatory adoption of Ind AS on PSUs in India.

Keywords: Ind AS; Indian GAAP; ratios; absolute figures; total assets; total liabilities.

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1 Introduction

International Financial Reporting Standards (IFRSs) started expanding its coverage along with a continuous demand of highly comparable set of financial statements for the ease of investors across the globe (Smith, 2016). Many countries have noticed this demand of growing high quality easily comparable set of financial statements very early and thus have started the convergence process much before. In the year 2005, European Union made it compulsory for all companies listed on various stock exchanges in the EU, thereby affecting a large number of countries having trade relations with the EU (Dalcı and Özyapıcı, 2017). This phenomenon did not go unnoticed on the part of the researchers and attracted the attention of researchers worldwide who tried to evaluate the impact of mandatory adoption of IFRS on the key financial figures and ratios

(Aharony et al., 2010; Cordazzo, 2013; Sahut et al., 2011). However, amongst these researchers also there are two distinct sets in which one is more interested in the international level impact of IFRS adoption while the other set is more focused on the measuring the impact on the national level (Aharony et al., 2010; Callao et al., 2009; Delvaille et al., 2005). Though, the researchers to the best of their knowledge and belief failed to find any conclusive research focusing on measuring the impact of IFRS adoption with respect to financial figures of only listed Public Sector Undertakings (PSUs).

The converged accounting standards in India, Ind AS, became applicable in India from the FY 2015–2016 on a voluntary basis and then from FY 2016–2017 on a mandatory basis with respect to a certain select set of companies (Bhatia and Tripathy, 2018). In the first stage of convergence to Ind AS, the companies which are having a net worth of INR 500 crores are covered. This move of stage-wise implementation is there as a cushion for the companies to be covered in the next phases as they can easily learn from the experiences of the larger organisations (Amrutha et al., 2019). However, researchers everywhere in the world have agreed to the fact that there are inherent differences between national GAAP and IFRS (Blanchette et al., 2012) and thus on the impact on the financial components (Iatridis, 2010).

The authors were curious to know the impact on the state governed PSUs listed at the National Stock Exchange (NSE) and covered under the first phase of IFRS convergence as these companies will serve the purpose of being the change maker. The impact on the key financial indicators of such large-scale public sector companies and state-governed enterprises will serve to provide key lessons to the organisations in financial sectors, NBFCs, Banks and Insurance companies when they adopt Ind AS in the subsequent phases. Thus, the authors have taken a sample of 18 state governed PSUs which are covered under the first phase of convergence and are listed at NSE & tried to answer the following research question:

RQ1. Whether the mandatory adoption of IFRS has a significant impact on the key accounting numbers and ratios of listed state-governed Indian PSUs covered under the first phase of convergence?

The researchers have tried to examine the impact of IFRS convergence on the key financial indicators of listed Indian organisations on a few occasions but when it comes to state governed PSUs there is a visible gap in the existing literature. These companies because of their structure and involvement of state are expected to play a crucial role to set the tone for the convergence process in the country. Thus, the current examination tries to address the visible gap in the existing literature and offer useful implications for the companies to be covered under the subsequent phases of IFRS convergence.

2 Literature review

IFRS continues to grow across nations and continents due to the inherent benefits of producing high quality globally comparable financial statements capable of bringing about transparency thereby reducing information asymmetry in the capital markets which in turns boosts the morale of the foreign investors and reduces the cost of capital

(Maria et al., n.d.). IFRS adoption across the globe has also triggered a lot of research in the field and there by contributed to the literature development for other nations and practitioners to refer in future. Researchers across the globe have studied the impact of mandatory adoption of IFRS on accounting number both in absolute terms as well as in terms of accounting ratios (Aharony et al., 2010; Cordazzo, 2013; Misirlioğlu et al., 2013; Sahut et al., 2011). In Indian context too much literature was not found since India adopted various IFRS e.g., IFRS 9 ahead of its compulsory application date (i.e., 2018) as notified by the IFRS foundation (Gupta and Jain, 2020). However, there are other studies too which kept in mind the fair valuation concept of IFRS and thus examined value relevance of IFRS adoption as compared to previous GAAP (Dalcı and Özyapıcı, 2017; Ismail et al., 2013; Kabir et al., 2010). There are studies available which are specific to a nation(Callao et al., 2007; Haller et al., 2009; Lin et al., 2012; Lueg et al., 2014) and there are also studies available with reference to a specific sector (Dalcı and Özyapıcı, 2017).

In the past, the researchers have studied the impact of mandatory IFRS adoption in the equity and net income of publicly traded companies in Germany and observed that IFRS adoption leads to a significant change in net income and equity both (Haller et al., 2009). There is a significant difference in the value of ratios after the adoption of IFRS as compared to the value calculated prior to adoption of IFRS (Gupta and Jain, 2020). Some studies conducted in Spain post IFRS adoption also revealed a significant change in some of the critical ratios (Àngels Fitó et al., 2013). Thus, the studies conducted in the past in some of the major European countries have revealed a significant change in both absolute accounting numbers as well as key accounting ratios. More so, researchers like(Callao et al., 2007) evaluated the impact of IFRS adoption on key accounting indicators in Spain and compared the ratios calculated under IFRS with the previous GAAP to conclude that there was significant difference particularly in case of Current ratio, Total Liabilities, and operating income (Aisbitt, 2006) however, evaluated the impact of IFRS adoption on 100 listed companies in the UK and failed to find any significant difference between the value of equity reported under IFRS and the previous GAAP. Later on, few other researchers also examined the impact of IFRS adoption on the key financial indicators of the listed companies in the UK and found that there are some ratios like current ratio, operating profit margin and return on equity which are impacted much more as compared to others (Lueg et al., 2014). Study conducted in Indian context it was concluded that adoption of IFRS improves the comparability in the financial statements (Meshram and Jagriti, 2021).

Some of the researchers even evaluated the impact of mandatory IFRS adoption in more than one country and concluded that the accounting numbers and certain ratios are impacted much more as compared to others by IFRS adoption (Gastón et al., 2010). Gastón et al. (2010) evaluated the impact of IFRS adoption on accounting figures and ratios and concluded that the most affected are total assets, total liabilities, current ratio and return on equity taking example from Spain and UK. However, there are certain studies conducted on much more number of countries taken together and there the authors concluded that impact of IFRS adoption varies across the nation with a limited amount of similarity in case of inventories and return (Callao et al., 2009). Blanchette et al. (2012) talked about the inherent difference between national GAAP and IFRSs and analysed its impact on financial statements. Similarly, Iatridis (Iatridis, 2010) also

mentions the difference between IFRSs and UK GAAP and analysed impact of IFRSs convergence on the financial performance of corporate in UK. It is also maintained by financial experts across the globe that more the conceptual difference between national GAAP and IFRS the greater is the chances of variation between the financial ratios of the financial statements prepared under the two (Blanchette et al., 2012). Jindrichovska and Kubickova (2014) evaluated the impact of IFRS on key financial ratio on Czech Republic. They have used t-test on mean differences and found that IFRS bring the changes on all the indicators of companies.

India though, started the process of convergence very late with 2015–2016 for some select firms and then 2016–2017 for mandatory adoption (Bhatia and Tripathy, 2018), but now the process is gaining momentum, and a lot many researchers have also tried throwing light on the area. Though, not a lot of work is available with respect to measuring the impact of mandatory IFRS adoption on the key accounting indicator of the listed firms. Selvam et al. (2019) concluded that there is a significant impact of mandatory convergence on the accounting ratios of BSE listed firms. Das (2017) examined the impact of mandatory IFRS adoption on Indian IT firms and concluded that even though there is a significant change in absolute accounting figures but no statistical evidence of the same can be extracted. Achalapathi and BhanuSireesha (2015), however, argued that when comparing financial ratios like liquidity, profitability, and valuation under IFRS and previous GAAP, a significant statistically proven increase was observed. Kalra and Vardia (2016) differed from the statements and concluded that on examining financial ratios calculated under IFRS and previous GAAP no significant statistical difference was found in case of asset turnover ratio, return on assets, net profit margin and return on equity.

Thus, we can clearly see from the literature review that not much work is available comparing the ratios of listed companies under IFRS and previous GAAP and there is also a lack of unanimous acceptance amongst the authors with respect to any significant impact of mandatory IFRS adoption on key financial ratios. Moreover, the authors failed to find any conclusive literature whereby listed PSUs were examined.

Therefore, based on research gap identified the following research objective was developed:

1 To analyse the impact of mandatory IFRS adoption on the key financial ratios of select PSUs in India.

Therefore, the authors will be comparing five key ratios that is current ratio (CR), debt-equity ratio (DE), return on assets (ROA), return on equity (ROE) and net profit margin (NPM) under Ind AS and IGAAP for the year 2015–2016. Moreover, the authors will also be comparing some key accounting numbers like profit after tax (PAT), equity, equity/market cap, total assets (TA), total liabilities (TL), Tangibles, PPE and total comprehensive income (TCI) under both regimes for the same time period. Keeping in mind the research objective the following research hypotheses were developed:

H_1: The median difference between CR (IGAAP) & (Ind AS) equals 0.

H_2: The median difference between DE (IGAAP) & (Ind AS) equals 0.

H_3: The median difference between ROA (IGAAP) & (Ind AS) equals 0.

H_4: The median difference between ROE (IGAAP) & (Ind AS) equals 0.

H_5: The median difference between NPM (IGAAP) & (Ind AS) equals 0.

H_6: The median difference between PAT (IGAAP) & (Ind AS) equals 0.

H_7: The median difference between TCI (IGAAP) & (Ind AS) equals 0.

H_8: The median difference between Equity (IGAAP) & (Ind AS) equals 0.

H_9: The median difference between E/MCAP (IGAAP) & (Ind AS) equals 0.

H_{10}: The median difference between TA (IGAAP) & (Ind AS) equals 0.

H_{11}: The median difference between TL (IGAAP) & (Ind AS) equals 0.

H_{12}: The median difference between Tangibles (IGAAP) & PPE (Ind AS) equals 0.

3 Research methodology

Keeping in mind the research objectives and hypotheses the authors followed purposive sampling and selected 18 PSUs covered under the first phase of mandatory adoption in the year 2015–2016. The 18 PSUs thus selected are given in Table 1.

Table 1 Sample profile

S. No.	*Name*	*S. No.*	*Name*
1	Bharat Electronics	10	MMTC
2	BHEL	11	NALCO
3	BPCL	12	NBCC
4	Coal India	13	NHPC
5	CONCOR	14	NMDC
6	GAIL India	15	NTPC
7	Hindalco	16	ONGC
8	HPCL	17	Power Grid
9	IOCL	18	SAIL

The authors collected the data through the financial statements of the subject companies taken direct from their respective websites for the year 2015–2016 and 2016–2017 (previous year converged data is taken). The authors calculated the ratios and carefully recorded the key financial values (all values in INR Billions) under observation from the consolidated financial statements of the subject PSUs. The next step included performing the normality tests on the data.

Therefore, the tests of normality revealed that the data of ROA, ROE, NPM and all absolute figures are normally distributed. Hence, in case of CR and DE non-parametric tests will be applied (Please refer to Tables 2 and 3).

Table 2 Tests of normality (Ratios)

Ratios	*Kolmogorov-Smirnov*[a]			*Shapiro-Wilk*		
	Statistic	*df*	*Sig.*	*Statistic*	*df*	*Sig.*
CR (IGAAP 2015–2016)	0.241	18	0.007	0.705	18	0.000
CR (Ind AS 2015–2016)	0.298	18	0.000	0.699	18	0.000
DE (IGAAP 2015–2016)	0.372	18	0.000	0.699	18	0.000
DE (Ind AS 2015–2016)	0.340	18	0.000	0.739	18	0.000
ROA (IGAAP 2015–2016)	0.161	18	0.200*	0.956	18	0.530
ROA (Ind AS 2015–2016)	0.125	18	0.200*	0.972	18	0.836
ROE (IGAAP 2015–2016)	0.198	18	0.060	0.944	18	0.338
ROE (Ind AS 2015–2016)	0.197	18	0.062	0.935	18	0.234
Net Profit Margin (IGAAP 2015–2016)	0.168	18	0.191	0.949	18	0.402
Net Profit Margin (Ind AS 2015–2016)	0.162	18	0.200*	0.937	18	0.253

*This is a lower bound of the true significance.

[a]Lilliefors significance correction.

Table 3 Test of normality (Absolute figures)

	Kolmogorov-Smirnov[a]			*Shapiro-Wilk*		
	Statistic	*df*	*Sig.*	*Statistic*	*df*	*Sig.*
Equity (IGAAP)	0.236	8	0.200*	0.826	8	0.054
Equity (Ind AS	0.272	8	0.083	0.770	8	0.014
E1/MCAP	0.117	8	0.200*	0.976	8	0.941
E2/MCAP	0.269	8	0.091	0.874	8	0.164
PAT (IGAAP)	0.251	8	0.148	0.877	8	0.176
PAT (Ind AS)	0.282	8	0.061	0.849	8	0.094
TCI (IGAAP)	0.249	8	0.155	0.901	8	0.294
TCI (Ind AS)	0.272	8	0.084	0.886	8	0.213
Total Assets (IGAAP) (2015–2016)	0.282	8	0.061	0.799	8	0.028
Total Assets (Ind AS) (2015–2016)	0.282	8	0.061	0.770	8	0.013
Tangibles under IGAAP	0.253	8	0.141	0.827	8	0.055
PPE under Ind AS	0.273	8	0.081	0.747	8	0.008
Total Liabilities (IGAAP) (2015–2016)	0.214	8	0.200*	0.826	8	0.054
Total Liabilities (Ind AS) (2015–2016)	0.230	8	0.200*	0.816	8	0.043

*This is a lower bound of the true significance.

[a]Lilliefors significance correction.

4 Results and discussion

First-time adoption of Ind ASs – Likewise IFRS 1, First time adoption of Ind ASs (Ind AS 101) provides mandatory and optional exemptions from retrospective application of

revised standards to facilitate less costly change over. However, Ind AS 101 First-time Adoption of Indian Accounting Standards grants seven critical exemptions which reduces the impact of IFRS convergence:

i Carrying amount of property, plant and equipment, intangible assets and investment property under the previous GAAP can be treated as deemed cost under Ind ASs (Paragraph D7AA of Ind AS 101).

ii Carrying amount of exploration and evaluation assets (as defined in Ind AS 104 Exploration for Evaluation of Mineral Resources) as per previous IGAAP can be treated as Ind AS transition value (Paragraph D8A of Ind AS 101).

iii A first-time adopter can recognise decommissioning expenses as per IFRIC1 Changes in Existing Decommissioning, Restoration and Similar Liabilities (which is Appendix A to Ind AS 16) on the date of transition if it has opted for exemption as per Paragraph D8A of (Paragraph D21A of Ind AS 101).

iv Carrying amount of rate regulated assets (as defined in Ind AS 114 Regulatory deferral accounts) as per previous IGAAP can be treated as Ind AS transition value (Paragraph D8B of Ind AS 101).

v Paragraph D9A of Ind AS 101 allows prospective application of IFRIC 4 Determining whether an Arrangement contains a Lease (which is Appendix C to Ind AS 17 Leases). A first-time adopter can apply this interpretation (which is presently changed by virtue of Ind AS 117 Leases) on the date of transition;

vi Paragraph D9AA of Ind AS 101 allows prospective application of lease classification relating to land as operating lease wherever applicable in contrast to previous GAAP by which lease of land was treated as finance lease. A first-time adopter can opt for applying lease classification on the date of transition.

vii Carrying amount of the long-term foreign currency denominated monetary items can be carried forward in Ind AS and the accounting policy of deferral of exchange fluctuation difference if opted under the previous IGAAP can be continued (D13AA of Ind AS 101).

In spite of the exemptions given by the authorities at the time of First Time Adoption, a lot of significant variations can be noted with respect to several values recorded under IGAAP and Ind AS. Taking one variable a clear visible difference between the absolute values of Total Assets and Total Liabilities can be noticed as given in Table 4.

Table 4 Descriptive absolute figures (TA and TL)

	Total assets (*IGAAP*) (*2015–2016*)	*Total assets* (*Ind AS*) (*2015–2016*)	*Total liabilities* (*IGAAP*) (*2015–2016*)	*Total liabilities* (*Ind AS*) (*2015–2016*)
Mean	1064.48	1100.94	650.44	567.81
Std. deviation	989.333	964.243	589.852	551.810
Minimum	39	96	14	12
Maximum	3562	3426	1690	1421
Variance	978779.341	929763.768	347925.507	304494.413

Thus, there is an identifiable difference between the absolute figures in this case as observed by Gaston et al. (2010). However, it would be interesting to check the statistical significance though:

Table 5: Performing Wilcoxon test on Current Ratio and Debt Equity data for IGAAP and Ind AS the authors found that there is no significant difference between the two hence the H_1 and H_2 is accepted that the median difference between CR and DE (IGAAP) and (Ind AS) equals 0. This is in line with the results achieved by Terzi et al. (2013) who concluded that convergence to IFRS has no impact on liquidity position and other key financial indicators.

Table 5 Results

Null hypotheses	*Test applied*	*Sig*	*Accepted/Rejected*
H1: The median difference between CR (IGAAP) and (Ind AS) equals 0	Wilcoxon Rank Test	0.744	Accepted
H_2: The median difference between DE (IGAAP) and (Ind AS) equals 0	Wilcoxon Rank Test	1.000	Accepted

Asymptotic significances are displayed. The significance level is 0.05.

*Exact significance is displayed for the test.

Table 6: Based on data normality results the authors applied paired sample t test on the data of ROE, ROA and Net Profit Margin to test the hypotheses H_3, H_4, H_5. The results reflected that even though the absolute data show little difference in the figures when tested statistically no significant statistical difference was found. This result thus further verifies the enquiry conducted by Kalra and Vardia (2016) on Indian listed firms where the absolute accounting numbers show little variations but when tested statistically no significant variation was reported in the results particularly with respect to ROA, ROE and NPM.

Table 7: Then the authors examined some of the key absolute accounting figures in order to further re-establish the conclusions drawn from analysis of financial ratios. It was found that Equity, Equity/MCap, PAT and TCI do not show any significant statistical variations. This is somewhat against the generally held proposition from the supporters of IFRS that one of the major benefits of IFRS is its fair value concept. The results further re-establish the findings of (Das, 2017) who examined the absolute data and financial ratios of Indian IT firms and concluded that even though the absolute numbers show some variations but that cannot be proven statistically significant. Hence hypotheses H_6, H_7, H_8 and H_9 are accepted.

However, the same conclusions cannot be drawn about the values of Total Assets, Tangibles, and Total Liabilities, which are showing a significant statistical variation when the data of IGAAP is compared with Ind AS. This result thus further complements the absolute values of mean and variance taken of the same sample. Thus, the results complement some of the previous studies also which concluded that there are statistically significant variations between key accounting figures reported under the two regimes (Achalapathi and BhanuSireesha, 2015). Therefore, the research hypotheses constructed as H_{10}, H_{11} and H_{12} are rejected.

Table 6 Paired samples test (Ind AS 2015–2016)

		Paired differences					*t-Stat*	*df*	*Sig. (2-tailed)*
		Mean	*Std. deviation*	*Std. error mean*	*95% Confidence interval of the difference*				
					Lower	*Upper*			
Pair 1	ROA (IGAAP 2015–2016) – ROA	0.0082333	0.0264975	0.0062455	–0.0049436	0.0214102	10.318	17	0.205
Pair 2	ROE (IGAAP 2015–2016) – ROE	0.0095111	0.0193393	0.0045583	–0.0001061	0.0191283	2.087	17	0.052
Pair 3	Net Profit Margin (IGAAP 2015–2016) – Net Profit Margin	0.0126111	0.0341626	0.0080522	–0.0043775	0.0295998	1.566	17	0.136

Table 7 Paired sample test (absolute figures)

		Paired differences					*t-stat*	*df*	*Sig. (2-tailed)*
		Mean	*Std. deviation*	*Std. error mean*	*95% Confidence interval of the difference*				
					Lower	*Upper*			
Pair 1	Equity (IGAAP) – Equity (Ind AS)	–21.1739	45.5996	11.3999	–45.4722	3.1244	–1.857	15	0.083
Pair 2	E1/MCAP – E2/MCAP	–0.0437	0.2272	0.05355	–0.1567	0.0693	–0.815	17	0.426
Pair 3	PAT (IGAAP) – PAT (Ind AS)	*0.3188*	4.3138	1.0463	–1.8991	2.5368	0.305	16	0.765
Pair 4	TCI (IGAAP) – TCI (Ind AS)	–1.3976	7.6032	1.8440	–5.3069	2.5116	–0.758	16	0.460
Pair 5	Total Assets (IGAAP) (2015–2016) – Total Assets (Ind AS) (2015–2016)	57.723	70.319	18.794	17.122	98.324	3.071	13	0.009
Pair 6	Tangibles under IGAAP – PPE under Ind AS	54.660	75.488	20.175	11.074	98.246	2.709	13	0.018
Pair 7	Total Liabilities (IGAAP) (2015–2016) – Total Liabilities (Ind AS) (2015–2016)	75.576	97.520	25.180	21.571	129.580	3.001	14	0.010

Thus, based on applying Wilcoxon signed rank test in case of data which is not normally distributed and applying paired sample –t test on the normally distributed data the following conclusions can be drawn.

5 Conclusion

Thus, the present study evaluated the key financial indicators and concluded that statistically significant impact of convergence to Ind AS is on Total Assets, Total Liabilities and Tangibles whereas in case of all the other absolute figures like PAT, TCI and more importantly Equity the impact of convergence is not statistically significant. The very belief that IFRS due to their fair valuation methods are much more likely to have an impact on Equity and thereby would be able to reduce the gap between book value and market value of stocks do not seems to be stand good. Thus, the present study conducted on Indian PSUs covered under the first phase of mandatory adoption not only contributes to the literature but also paves the way for future research to be done in the area with respect to value relevance of convergence process as most of the studies globally argued in favour of IFRS adoption on this very ground (Shamki, 2012). This study also concludes that the impact of convergence to Ind AS is not affected by the sector as the findings of the present study on Indian PSUs resembles with the findings of the study conducted with respect to Indian IT firms (Das, 2017).

6 Practical implications

The current examination offers some useful policy implications for regulators and management of the companies to be covered under the subsequent phases of IFRS convergence. The biggest implication is that the findings of current examination suggest that the value of Equity reported under IFRS and under the previous GAAP fails to register a significant difference thereby bringing down the premise that IFRS due to their fair valuation concept would reduce the difference between book value and market value of equity. This may be due to the fact that IFRS convergence in India is constrained as fair valuation is optionally applicable on property, plant and equipment (PPE) and intangible assets. Moreover, the financial assets and liabilities are also going to be amortised on cost. Thus, even though India is moving towards the convergence due to such provisions the IFRS convergence in India may offer limited utility when it comes to fair valuation reporting. This is an important aspect to be considered for the companies to be covered under subsequent phases of convergence.

7 Limitations

The study also suffers from some inherent limitations like the sample of the companies chosen for the research is relatively small and thus prevents generalisation. The financial figures under consideration are of one year only. Moreover, the study is not covering the all-important aspect of convergence, which is value relevance due to the small sample size chosen. Still, with the limited amount of literature available in the field this study adds to the literature and the novelty of the study lies in the fact that it studies the impact

of the convergence of state-governed Indian PSUs covered under the first phase of Ind AS adoption (converged IFRS) which is not yet covered to the best of authors' knowledge and belief.

8 Future research agenda

The authors recommend a subsequent inquiry involving companies from difference sectors and spread over an elaborated time period focused at examining the value relevance of the IFRS convergence in India. This would not only facilitate cross checking the findings of the current examination over a larger sample size but also make it clear whether the restrictions imposed on fair valuation aspect of IFRS convergence really cripple the value relevance aspect.

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