



## **BENEFITS TO COMPANIES DUE TO CONVERGENCE WITH IFRS: ACCOUNTING PROFESSIONALS' PERSPECTIVES**

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### **Abstract**

In European countries IFRS was implemented from the year 2005 but the work of convergence with IFRS is still pending in India. There are over 10,000 listed companies required to implement IFRS in India. As this convergence process comes with a lot of benefits forming the opportunities of harmonization and proper planning can extend these benefits manifolds. In this study, we have brought out and analyzed several benefits in terms of opportunities likely to arise in front of Indian companies, investors, accounting professionals and regulators etc. going to converge their accounting practices with IFRS. The study disclose that the sampled respondents considered all factors of benefits as highly important and among all these factors, the factor 'better decision' (1<sup>st</sup> factor) and 'smooth communication and control over frauds' (4<sup>th</sup> factor) are considered key beneficial factors across all independent variables of sampled respondents. The study helps to make proper planning for those companies which are going to prepare and present their financial statements as per IFRS.

**Keywords:** *IFRS, Reporting Standards and Convergence Process.*

### **Introduction**

IFRS, being principle based standards, are expected to provide many benefits in different ways to economy, companies/industries and investors. It is felt that these will benefit the economy by increasing the growth of international business and international investing in the form of more foreign capital inflows into the country. Now, investors want more relevant, reliable, timely and comparable information across different jurisdictions. IFRS would serve to enhance the comparability between financial statements of various companies across the globe. The industry would be able to raise capital from foreign markets at lower cost if they are able to create confidence in the minds of foreign investors that their financial statements comply with globally accepted accounting standards. It would provide professional opportunities to serve international clients and increase their mobility to work in different parts of the world. As already mentioned, the IFRS are rules based, measure all assets and liabilities at fair value and enhance the accuracy and reliability of financial statements. Additionally, the early adoption of IFRS is also claimed to enhance the brand value of the companies which enable them to enlist and trade their shares and securities on stock exchanges world-wide.

Another major benefit of convergence is that the management of a company can view all the companies in a group with a common platform. This will reduce the time and efforts involved in adjusting the accounts to comply with the requirements of the national GAAP. Business acquisition would be reflected at fair value in IFRS rather than carrying value. This would ensure greater transparency in the financial statements. Companies that operate in a global environment and comply with foreign reporting requirements can streamline their financial reporting. This will reduce related reporting cost by developing common reporting systems which will ensure consistency in statutory reporting. The comparison and benchmarking of financial data with international competitors will make cross border acquisitions and joint venture possible. The convergence process benefits the economy by increasing the growth of its international business, facilitates maintenance of orderly and efficient capital markets and also helps to increase the capital formation leading to economic growth.

From the preceding description, it can be held that IFRS are endowed with a lot of benefits. The benefits of convergence with IFRS in India have been examined by administering to the respondents a structured questionnaire comprising three aspects: benefits to companies/industries, benefits to investors and benefits to regulators.

### **Review of Literature**

This section briefly reviews some recent empirical studies conducted to examine the impact of IFRS on the financial statements of companies, investors and economy.

Mcgee and Preobragenskya (2003) explored the problems of implementing international accounting standards in a transition economy in Russia. They found that many Russian accountants were not sufficiently familiar with international standards to implement them. Most of the universities did not have qualified professors and most accounting firms did not have anyone who had been trained in the new rules. It was concluded that current Russian accounting standards are in conflict with international standards in several important ways and these conflicts will not be resolved in the near future, the study asserts. Goodwin and Ahmed (2006) examined the impact of Australian equivalents to international financial reporting standards (A-



IFRS) on the accounts of small, medium and large-sized firms. The study noted that the transition to A-IFRS has not been onerous for small firms. Most of the small firms were unaffected by A-IFRS and those that were affected had fewer changes to make to net income and to equity than both medium and large-sized firms. Results of the study also indicated that the average small firm had a net income and equity increase from A-IFRS. Hope et al. (2006) investigated the importance of IFRS in context of global accounting standards harmonization and as well as to know what institutional factors influenced a country's decision to voluntarily adopt IFRS. The study noted that a significant negative association between the adoption of IFRS and investor protection. It was also found that countries with weak shareholder protection (i.e., poor disclosure rules and anti-director rights) were more likely to adopt IFRS than were countries with strong shareholder protection. Schadewitz and Vieru (2007) evaluated the markets valuation and response to the IFRS reconciliation adjustments of earnings and shareholders' equity required by IFRS 1 (First time adoption of International Financial Reporting Standards) transition documents in Finland. The study showed that investors' response to new information was fairly efficient. The researchers argued that earnings of entities were increased due to implementation of IFRS. Christensen et al. (2008) studied how accounting quality was affected by the adoption of IFRS for two groups of firms, those that perceive net benefits of IFRS and second was those that have no incentive to adopt and were forced to comply. The study examined that IFRS leads to accounting quality improvements. The result of the study documented that accounting quality did not always improve with IFRS adoption.

### **Research Objectives**

The major objective of this study is to find out the opportunities in terms of gains from convergence of IGAAP with IFRS to companies.

### **Hypothesis**

One hypothesis is developed on the basis of above objective which is here-in-under.

1. That pre and post convergence benefits in terms of new business opportunities to companies will not significantly differ from each other.

### **Research Methodology**

To accomplish the above objective, a structured questionnaire was administered to sampled CAs for collecting information. A five point Likert type scale (Strongly agree, Agree, Undecided, Disagree and Strongly disagree) was used in the questionnaire. The sample consists of two hundred Chartered Accountants (CAs), having imperative knowledge on IFRS. The responses from respondents were coded and tabulated in SPSS 16.0. For analyzing the data, mean, standard deviation (SDs), t-test and F- test were used. Further, Factor Analysis is used as a data reduction technique to short list the factors which may constitute as the perceived benefits of convergence with IFRS. The tests were conducted at five (5) percent level of significance. To measure the highly important issues among all issues, we used mean and standard deviation. The t-test was used to measure the gender-wise differences and their effects on perception about these issues. Here we used F-test for measuring the differences across nature of jobs and years of experience.

### **Results & Discussions**

The section shows the results of the study based on collected data here-in-under. This aspect covers thirteen statements which were evaluated on five point Likert scale encompassing strongly agree, agree, undecided, disagree and strongly disagree. Factor analysis is used on these thirteen statements to find out the major beneficial factors emanating from the convergence process. Principal components method is used to find out the major factors of benefits and only the factors with eigen values greater than one were retained for analysis. Further, varimax rotation method is used and the values of factor loading greater than or equal to +/- .50 were retained. In addition to this, factor ranking is assigned on the basis of the overall mean value of each factor. Table 1 reveals the results of factor analysis and produces four major factors given as follows:

- i. Better decisions
- ii. Unification of business transactions and cost saving
- iii. Easiness in internal auditing and better risk management
- iv. Smooth communication and control over frauds

#### **i. Better Decisions**

Here, the first factor "better decisions" includes seven major issues viz. improvement in analysis of information for decision making, enhancement in accuracy and reliability of accounting information, better inter- company comparison of financial statements, accuracy and reliability of reported earning and improvement in financial position, facilitation of merger/acquisition, better corporate governance and better access to capital market. The loading values of these factors worked out at 0.465, 0.761, 0.514, 0.799, 0.518, 0.705 and 0.653 respectively. The values of factor loadings present the



correlation between factor and variable. It implies that the “better decisions” (factor 1) and all five variables are highly correlated. Keeping in view, the nature of these variables, the name for factor 1 is considered as “better decisions”.

#### **ii. Unification of Business Transactions and Cost Saving**

The burden of financial reporting become less due to convergence of accounting standards with IFRS because it simplifies the process of preparing the individual and group financial statements and thereby reduces the cost of preparing the financial statements using different sets of accounting standards. Convergence with IFRS provides more accuracy and reliability in reporting financial statements and helps the investors to make better investment decisions. After introducing this convergence process, an entity does not need to follow different accounting standards for preparing and presenting financial statements. Furthermore, it will also help an entity to achieve harmony between internal and external financial reporting while simplifying the process of preparing financial statements. Accounting and reporting on common accounting principles is providing easy access to foreign funds through higher acceptability of the global accounting language, thereby leading to higher FII inflow and lower cost of capital. While going for a business combination, the need for presenting a standalone financial statement for the acquiring company. They can present only consolidated financial statements will be required making internal audit easier and less costly. As India is one of the key global players, migration to IFRS will enable Indian entities to access the international capital markets without having to go through the cumbersome conversion and filing process. It will lower the cost of raising funds, reduce accountants' fees and enable faster access to all major capital markets. The 2<sup>nd</sup> factor (unification of business transactions and cost saving) is a combination of four variables such as ‘reduction in cost of capital’, ‘ease of using one consistent reporting standard in subsidiaries from different countries’, ‘harmonization of internal and external reporting by creating a single accounting language’ and ‘simplification of the process’. The loading values of these variables are 0.837, 0.867, 0.843 and 0.804 respectively. This implies high level of correlation between the second factor and its variables due to the high value of loading variables.

#### **iii. Ease in Internal Auditing and Better Risk Management**

IFRS provides accuracy and reliability of financial statements which helps in internal auditing. It also provides better transparency in valuing stocks, derivatives and off balance sheet items which helps in internal auditing as well as helpful in risk management. The 3<sup>rd</sup> factor comprises only two aspects, ‘easiness in internal auditing and less costly’ and ‘better risk management’. The loading values for these variables are 0.751 and 0.530 respectively. The higher loading values of variables present the high level of correlation between factor and the variables. It implies that the third factor and its variables are highly correlated with each other.

#### **iv. Smooth Communication and Control Over Frauds**

As convergence with IFRS provides more accuracy and reliability in accounting information and brings some significant structural changes in corporate governance, it is expected to identify the corporate frauds. It will also result in smooth communication between managers, shareholders, lenders and others. In this regards, it is further noticed that the 4<sup>th</sup> factor (smooth communication and control over frauds) has only two sub factors which go together viz. reduction in information asymmetry and prevention of frauds. The loading values of these two sub factors are 0.685 and 0.782 respectively. These values are good enough and present a high correlation between the factor ‘smooth communication and control over frauds’ and its variables.

The statistical results and independent variable wise analyses with respect to these four beneficial factors are carried out in succeeding paragraphs.

Table 2 illustrates means, SDs and p-values of the responses regarding all beneficial factors allied with convergence process. The results disclose that maximum number of respondents (196) agree/strongly agree to the fact that convergence with IFRS helps an entity to make better inter-company comparison of financial statements. This is due to a common reporting system adopted by all entities. It will also help in comparison and benchmarking of financial data with international competitors. The mean values of responses exhibit that ‘better inter-company comparison of financial statements’ (4.39), ‘investors’ ability to compare a peer group of companies’ financial statements’ (4.35), ‘better information for decision making (4.33)’, ‘better access to capital market’ (4.14) and ‘more effective regulatory oversight and enforcement of higher standards of financial disclosures’ (4.14) are the major beneficial factors in this order. In addition to this, all beneficial factors ascribed to convergence process are considered worthwhile by the sampled respondents as all have mean rank more than neutral value (3). Substantially, the results also depict that all factors of benefits present significant difference with respect to neutral value 3. It infers from these results that convergence with IFRS offer several benefits to the corporate area. Table 2 further discloses the value of loading, mean and SDs of variables, value of mean of factors and ranking of factors on the basis of afore-discussed mean values. It is noticed that better decisions (1<sup>st</sup> factor) having highest mean value, falls at first rank.



Unification of business transaction (2<sup>nd</sup> factor) and smooth communication and control over frauds (4<sup>th</sup> factor) obtained second and third rank. The last rank goes to the factor i.e. “easiness in internal auditing and better risk management” (3<sup>rd</sup> factor). The aforesaid rankings assigned to the factors are based on the concept that as the mean value of factors decreases, the corresponding values of their rank increases.

Table 3 discloses the respondents’ gender-wise differences (between male and female) and their effect on all the beneficial factors. The table depicts means, SDs and the results of t-test for all these factors with respect to gender. It can be seen from the table that the females have an edge over the males with respect to three factors except the one i.e. unification of business transactions and cost saving (2<sup>nd</sup> factor). The table further shows that no significant gender difference exists with respect to these factors at five percent level of significance. From this analysis, it is clear that there are no significant gender wise differences with respect to the perception about beneficial factors.

Table 4 reveals the respondents’ age-wise analysis with respect to all these beneficial factors and infers that the factor ‘better decision’ (mean value 4.17) and the factor ‘smooth communication and control over frauds’ (mean value 3.67) are major beneficial factors considered by all the respondents irrespective of different categories of their age groups. Concisely, these results disclose that despite visible differences across all the factors, the significant differences have not been obtained for different categories of age groups of respondents.

Table 5 presents the nature of job wise analysis with respect to all the beneficial factors. The mean values show that the respondents in self practices, employed in audit firms and employed in industry hold almost similar opinion about these factors of benefits and considered the factors ‘better decision’ (1<sup>st</sup> factor) and ‘smooth communication and control over frauds’ (4<sup>th</sup> factor) as highly important among all the factors. In addition to this, the value of f-test shows that a significant difference exists only for the factor ‘unification of business transactions and cost saving’ (2<sup>nd</sup> factor) at five percent level of significance among all the respondents belonging to the different natures of the jobs. From the results, it is apparent that notwithstanding the difference across the factors of benefits, the significant differences have been obtained only for the factor ‘unification of business transactions and cost saving’ (2<sup>nd</sup> factor) with respect to the different natures of jobs of respondents. The same trend can be seen for all the factors of benefits among the responses of respondents belonging to different areas of specialization presented in Table 6. Beside this, the result of f-test depicts that among all factors; only the factor ‘better decision’ presents significant difference at five percent level of significance with respect to different areas of specialization of respondents. From this analysis, it is evident that the results for different categories of specializations of respondents are consistent with respect to all the factors of benefits to companies.

Table 7 reveals the sampled respondents’ experience wise analysis with respect to the factors of benefits expected to arise in convergence process. The mean values of these factors reveal that the respondents having length of experience of 10-15 years and above 15 years have similar results such as they considered the factor ‘better decision’ and ‘smooth communication and control over frauds’ as most important factors among all the factors and the least important factor is ‘easiness in internal auditing and better risk management’. On the other hand, the respondents falling in 5-10 years experience group considered ‘better decision’ and ‘unification of business transaction and cost saving’ as highly important factors. Overall, the results in this table are also consistent with the results presented by all the afore-discussed tables regarding the factors of benefits. The results of f-test present that no significant difference exists among the responses of all sampled respondents having different length of experience in respect of these factors.

It concludes from the above that the sampled respondents considered all factors of benefits as highly important and among all these factors, the factor ‘better decision’ (1<sup>st</sup> factor) and ‘smooth communication and control over frauds’ (4<sup>th</sup> factor) are considered key beneficial factors across all independent variables of sampled respondents.

### **Conclusion**

Indian reporting practices will be significantly affected by this convergence process. Thus, it is required for Indian corporate world to harmonize with these new standards. This harmonization process would bring a lot of benefits to Indian companies, investors, regulators and accounting professionals etc. Therefore, Indian companies should harmonize Indian accounting standards with IFRS. It concludes that the sampled respondents considered all factors of benefits as highly important and among all these factors, the factor ‘better decision’ (1<sup>st</sup> factor) and ‘smooth communication and control over frauds’ (4<sup>th</sup> factor) are considered key beneficial factors across all independent variables of sampled respondents. The study helps to make proper planning for those companies which are going to prepare and present their financial statements as per IFRS.



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**Table 1 Factor Analysis of Factors of Benefits to Companies in Convergence with IFRS**

Factors	Statements	Loading	eigen values	Mean	SD	Factor Mean	Factor Rank
Better decision	Improvement in analysis of information for decision making	0.465	3.987	4.093	0.906	4.14	1
	Enhancement in accuracy & reliability of accounting information	0.761		4.123	0.854		
	Better inter- company comparison of financial statements	0.514		4.393	0.707		
	Accuracy & reliability of reported earnings and improvement in financial position	0.799		4.04	0.791		
	Facilitation of mergers/acquisitions	0.518		4.073	0.866		
	Better corporate governance	0.705		4.118	0.788		
	Better access to capital market	0.653		4.148	0.907		
Unification of business transactions and cost saving	Reduction in cost of capital	0.837	1.580	3.293	1.056	3.6	4
	Ease of using one consistent reporting standard in subsidiaries from different countries	0.867		3.97	0.912		
	Harmonization internal and external reporting by creating a single accounting language	0.843		3.798	1.009		
	Simplification of the process	0.804		3.378	1.247		
Ease in internal auditing and better risk management	Easiness in internal auditing and less costly	0.751	1.544	3.42	1.001	3.61	3
	Better risk management	0.530		3.795	0.894		
Smooth communication and control over frauds	Reduce information asymmetry	0.685	1.269	3.97	1.06	3.66	2
	Prevention of frauds	0.782		3.35	1.17		

**Table 2 Means, SDs and P-Values of Factors of Benefits to Companies**

Factors of benefits	N	Mean	SD	p-value	SA	A	UD	DA	SDA
Simplify the process	400	3.378	1.247	0	94	113	62	112	19
Improve analysis of information for decision making	400	4.093	0.906	0	140	199	21	38	2
Improvement in accuracy & reliability of accounting information	400	4.123	0.854	0	138	203	34	20	5
Better inter- company comparison of financial statements	400	4.393	0.707	0	196	176	19	7	2
Accuracy & reliability of reported earning and improvement in financial position	400	4.04	0.791	0	101	241	36	17	5
Facilitation of merger/acquisition	400	4.073	0.866	0	138	180	55	27	0
Better corporate governance	400	4.118	0.788	0	131	204	46	19	0





Better access to capital market	400	4.148	0.907	0	159	176	34	27	4
Reduction in cost of capital	400	3.293	1.056	0	63	95	152	76	14
Ease of using one consistent reporting standard in subsidiaries from different countries	400	3.97	0.912	0	115	197	55	27	6
Easiness in internal auditing and less costly	400	3.42	1.001	0	59	133	134	65	9
Harmonization of internal and external reporting by creating a single accounting language	400	3.798	1.009	0	101	177	72	40	10
Reduce Information asymmetry	400	3.97	1.06	0	64	275	51	6	4
Prevention of frauds	400	3.35	1.17	0	79	120	76	113	12

Table 3 Gender -wise Attribution for the Factors of Benefits to Companies in Convergence Process

Factors	Gender	N	Mean	SD	T	Sig
Better decision	Male	295	4.12	0.57	-1.37	0.17
	Female	105	4.20	0.48		
Unification of business transactions and cost saving	Male	295	3.63	0.62	1.24	0.21
	Female	105	3.55	0.59		
Ease in internal auditing and better risk management	Male	295	3.58	0.77	-1.23	0.22
	Female	105	3.69	0.72		
Smooth communication and control over frauds	Male	295	3.62	0.74	-1.81	0.07
	Female	105	3.78	0.77		

Table 4 Age-wise Attribution for the Factors of Benefits to Companies in Convergence Process

Factors	Age Wise Distribution (Years)												Total			Test	
	20-30			30-40			40-50			Above 50							
	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	F value	Sig.
Better decision	131	4.13	0.52	167	4.11	0.57	65	4.18	0.63	37	4.24	0.47	400	2.18	0.54	0.71	0.55
Unification of business transactions and cost saving	131	3.54	0.58	167	3.63	0.62	65	3.61	0.62	37	3.75	0.70	400	2.52	0.63	1.28	0.28
Ease in internal auditing and better risk management	131	3.52	0.74	167	3.58	0.78	65	3.80	0.68	37	3.68	0.84	400	3.03	0.76	2.1	0.1
Smooth communication and control over frauds	131	3.56	0.73	167	3.72	0.74	65	3.67	0.78	37	3.72	0.80	400	3.05	0.76	1.18	0.32

Table 5 Nature of Job -wise Attribution for the Factors of Benefits to Companies in Convergence Process

Factors	Nature of Job									Total			Test	
	Self practices			Employed in audit firms			Employed in industry							
	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	F value	Sig.
Better decision	137	4.190	0.615	140	4.132	0.53	123	4.09	0.51	400	4.14	0.55	1.02	0.36
Unification of business transactions and cost saving	137	3.651	0.680	140	3.485	0.57	123	3.70	0.57	400	3.61	0.62	4.66*	0.01
Ease in internal auditing and better risk management	137	3.660	0.820	140	3.575	0.74	123	3.59	0.71	400	3.61	0.76	0.51	0.6
Smooth communication and control over frauds	137	3.708	0.843	140	3.685	0.74	123	3.59	0.64	400	3.66	0.75	0.97	0.38

\*Significant difference at five percent level.



Table 6 Job Specializations -wise Attribution for the Factors of Benefits to Companies in Convergence Process

Factors	Area of Specialization												Total			Test	
	Accounts			Audit			Taxation			Others							
	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	F value	Sig.
Better decision	86	4.04	0.51	89	3.98	0.61	38	4.11	0.39	187	4.27	0.55	400	4.10	0.51	7	0
Unification of business transactions and cost saving	86	3.60	0.54	89	3.54	0.64	38	3.63	0.53	187	3.64	0.66	400	3.60	0.59	0.52	0.67
Ease in internal auditing and better risk management	86	3.55	0.66	89	3.69	0.79	38	3.67	0.64	187	3.58	0.81	400	3.62	0.72	0.68	0.57
Smooth communication and control over frauds	86	3.65	0.67	89	3.70	0.78	38	3.58	0.78	187	3.67	0.77	400	3.65	0.75	0.24	0.87

Table 7 Years of Experience -wise Attribution for the Factors of Benefits to companies in Convergence Process

Factors	Years of Experience												Total			Test	
	0-5			5-10			10-15			Above 15							
	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	N	Mean	SD	F value	Sig.
Better decision	148	4.06	0.55	98	4.23	0.58	68	4.19	0.51	86	4.15	0.54	400	4.16	0.55	2.09	0.10
Unification of business transactions and cost saving	148	3.57	0.61	98	3.69	0.61	68	3.50	0.63	86	3.67	0.61	400	3.61	0.62	1.83	0.14
Ease in internal auditing and better risk management	148	3.63	0.76	98	3.68	0.78	68	3.49	0.76	86	3.59	0.73	400	3.60	0.76	0.96	0.41
Smooth communication and control over frauds	148	3.68	0.72	98	3.68	0.75	68	3.59	0.79	86	3.66	0.78	400	3.65	0.75	0.28	0.84