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The Impact of International Financial Reporting Standards IRFSs in Return on Investment of Selected Firms

CA Mitul Parmar
Assistant Professor,
M. S. University,
Baroda, Gujarat (India)

Abstract: ***Research focus on the International Financial Reposting Standard IFRSs adopt would impact on the financial performance of the selected firms. The study contributed the industry belong to capital goods which have high net worth and it's directly impact return on investment of the firms. And meanwhile also impact market value of firms. Three separate measures are used: variability of net income, variability of return on investment to that of book total assets, correlation between all independents variables. The data samples are from the capital market line and money control, they span a period of six years, 2008 to 2010 pre-execution of IFRSs and 2011 to 13 post execution variables. Researcher concludes that there was an enhancement in the quality of reported earnings subsequent to adoption of IFRSs.***

Keywords: Market, International, IFRS, Financial, Reporting, Book, Assets.

I. INTRODUCTION

As we know international market facing biggest issues related to global trade and maintain all the books of accounts with reference to international norms. An exporting company has deals challenges for profit making and related issues. So its necessary to maintain uniform books of accounts for all the global trading companies all over the world. As that matter International Accounting Standards Boards has been took decision for implementation of international financial reporting standards. With reference to our economy and implementation, a top government official has said that India will soon follow international financial reporting standards. As Ministry of Corporate Affairs, said as IFRS Summit 2009? By the Confederation of Indian Industry here recently.

It have been observed that standard setting was an evolutionary process even at the level of International Accounting Standard Board (IASB), Mr. Bandyopadhyay said that Its not so easy to adopt IFRS, its impact on profitability as well as suitability for our corporate sector, he said that "f certain things are changing at IASB, it does not mean we will immediately jump into this. We are converging and do that on our own availability" He also said that the growth of the corporate sector and interest of the country will equally important for the said converging.

Why should adopt International Financial Reporting Standard?

II. WHY INTERNATIONAL FINANCIAL REPORTING STANDARD?

1. IFRS are increasingly being recognized as Global Reporting Standards for financial statements, it will increase transparency to maintain books of account and international transaction.
2. 'National General Accepted Accounting Principle ' is becoming rare.
3. As global capital markets become increasingly integrated, many countries are moving to IFRS.
4. More than 100 countries such as European Union, Australia, New Zealand and Russia currently permit the use of IFRS in their countries, the global companies have trade in number of countries will must follow the IFRS, it become easy for currency conversation.
5. The SEC has allowed the use of IFRS without reconciliation to US GAAP in the financial reports filed by foreign private issuers, thereby, giving foreign private issuers a choice between IFRS and US GAAP. SEC is proposing that the US issuers begin reporting under IFRS from 2014 (actually from 2012, if requirements for three year comparable are considered), with full conversion to occur by 2016 depending on size of the entity. This is a milestone proposal that will bring almost the entire world on one single, uniform accounting platform i.e. IFRS.

III. IFRS IN INDIA

- At its 269 meeting the Council of ICAI has decided that public interest entities such as listed companies, banks, insurance companies and large-sized organizations to converge with IFRS for accounting period commencing on or after 1 April, 2011. All those companies have major business in computer technology and software industry will must follow the international reporting standards.

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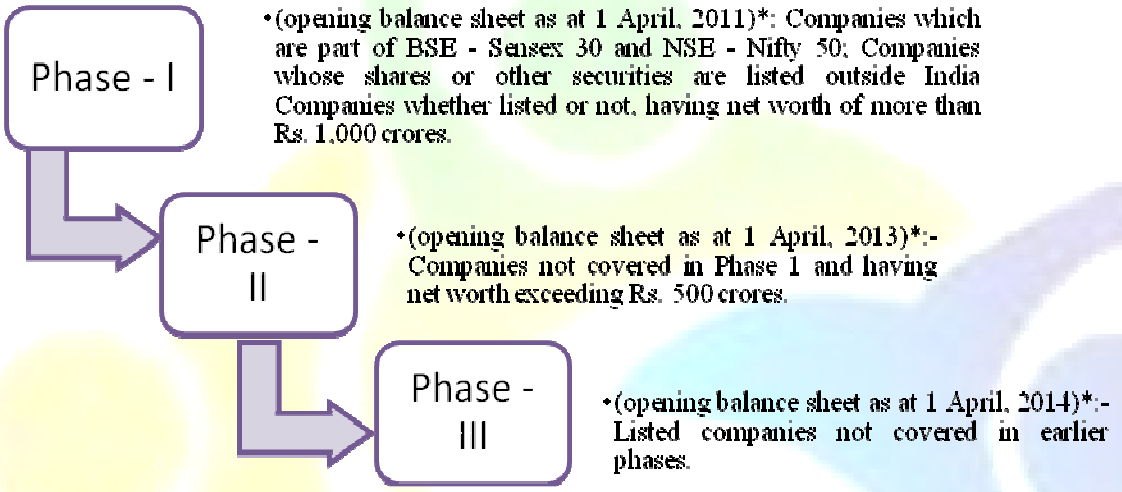
- For Small and Medium size Entities i.e. other than public interest entities, ICAI (Institute of Chartered Accountants of India) had proposed that a separate standard may be formulated based on the IFRS for Small and Medium-sized Enterprises issued by the IASB after modifications, if necessary.
- Even Ministry of Companies Affairs had expressed the view that India should converge to IFRS w.e.f 1 April, 2011.
- With an objective to ensure smooth transition to IFRS from 1 April, 2011, ICAI is taking up the matter of convergence with IFRS with National Advisory Committee on Accounting Standards (NACAS) established by the Ministry of Corporate Affairs, Government of India and other regulators including Reserve Bank of India (RBI), Insurance Regulatory and Development Authority (IRDA) and the Securities and Exchange Board of India (SEBI).
- Recent news article highlights that Core Group for IFRS convergence formed by MCA has recommended convergence to IFRS as under



IV. REVIEW OF LITERATURE

Market Reaction to the Adoption of IFRS in Europe, Christopher S. Armstrong Mary E. BarthAlan D. Jagolinzer Edward J. Riedl, Working Paper, Harvard Business School September 2008, and this study examines the European stock market reaction to sixteen events associated with the adoption of International Financial Reporting Standards (IFRS) in Europe. We find a more positive reaction for firms with lower quality pre-adoption information, which is more pronounced in banks, and with higher pre-adoption information asymmetry, consistent with investors expecting net information quality benefits from IFRS adoption. Overall, the findings suggest that investors in European firms perceived net benefits associated with IFRS adoption.

World Journal of Social Sciences Vol. 1. No. 1. March 2011. Pp.125 - 136 **IFRS Implementation in India: Opportunities and Challenges Pawan Jain1**One of the foremost requirements to operate a Business successfully is to have a good financial reporting system in place. Keeping this in mind, Accounting Professionals and Accounting Bodies across the globe, during last decade, had tried to put a financial reporting system in place which is harmonized, robust and have extensive applicability The paper discuss the problems faced by the stakeholders (Regulators, Accountants, Firms etc) in the process of adoption of IFRS in India.

Moreover, firms' reporting incentives are different and the strength of enforcement differs considerably across countries (e.g., Ball et al., 2003; Leuz et al., 2003; Ball and Shivakumar 2005; Lang et al., 2006; Burgstahler et al., 2006).For these reasons, one frequently voiced concern is that some firms may adopt IFRS merely as a label without making material changes in their reporting policies (e.g., Ball, 2001, 2006). In contrast, other firms may experience a major change in their reporting incentives and adopt IFRS as part of a broader strategy to increase their commitment to transparency. Our study is designed to identify and examine such differences across firms. Provided that investors can differentiate between firms that adopt IFRS as a 'label' and those that make 'serious' changes in their reporting strategy, we should observe differential economic consequences. An increased commitment to transparency is expected to reduce information asymmetry and estimation risk, and hence should be rewarded with higher market liquidity and a lower cost of capital (e.g., Verrecchia, 2001; Lambert et al., 2007).

IFRS reporting is associated with higher market liquidity and a lower cost of capital relative to local GAAP firms, and relative to themselves prior to the adoption of IFRS. We examine three measures of economic outcomes, namely the price impact of trades suggested by Amihud (2002), the percentage bid-ask spread, and the implied cost of capital. Using these variables (and several others in our sensitivity analyses), we find little evidence that IFRS reporting is, on average, associated with higher market liquidity or a lower cost of capital, after controlling for various firm characteristics and industry-, country-, and year fixed effects.

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V. SAMPLE SIZE

No of Companies	Companies Name: Capital Goods
1	Larsen & Toubro Limited, also known as L&T, is an Indian multinational conglomerate headquartered in Mumbai, India.
2	Bharat Heavy Electricals Limited Bharat Heavy Electricals Limited owned by Government of India, is a power plant equipment manufacturer and operates as engineering and manufacturing company based in New Delhi, India.
3	Siemens AG is a German multinational engineering and electronics conglomerate company headquartered in Berlin and Munich.
4	Crompton Greaves is an Indian multinational company engaged in design, manufacturing, and marketing of products related to power generation, transmission, and distribution based in Mumbai.
5	Havells India Ltd is a billion-dollar-plus electrical equipment company founded in 1958, with products ranging from industrial & domestic circuit protection switchgear, cables & wires, motors, fans,
6	ABB is a multinational corporation headquartered in Zurich, Switzerland, operating in robotics and mainly in the power and automation technology areas.
7	Thermax. D Ltd. is an Indian energy and environment engineering company based in India and Britain. It manufactures boilers, vapour absorption machines, offers water and waste solutions and installs captive power projects.
8	Lakshmi Machine Works Limited is India's largest textile machinery and CNC Machine Tool manufacturers, based in Coimbatore founded by Cavalier Dr.G.K.Devarajulu.
9	*AIA Engineering*, a certified ISO 9001 company, specializes in the design, development, manufacture, installation and servicing of high chromium wear,
10	*Bharat Electronics Limited* (*BEL*) is a state-owned electronics company with about nine factories, and few regional offices in India.

VI. HYPOTHESIS

Adoption of IFRSs in selected firms effects Return on Investment of the firms

Sub Parameters for the Hypothesis are as below:

1. SIZE OF THE COMPANIES: The natural logarithm of the year total assets
2. GROWTH: Percentage change in sales
3. EISSUE: Percentage change in common stock
4. DISSUE: Percentage change in total liability
5. LEVERAGE: End of the year total liabilities dividend by end of the year equity book value
6. TURN: Sales divided by end of year total assets
7. CASH FLOW: Annual net cash flow from operating activities divided by end of year total assets
8. DLIST: AN indicators variables that equals one if the firm issues both A and B shares.

The control variables for this model include assets size, yearly sales growth, equity issuance, debt issuance, financial leverage, and assets turnover. Each of these control variables has been identified in prior studies as attributable to earnings volatility.

ROI = ao + a1 assets size, + a2 Growth + a3 Issue + a4 DIssue + a5 Leveage + a6 Turn + a7 Operating Cash Flow + a8 D List

VII. RESULT AND INTERPRETATION

Table-1
Descriptive Statistics

Statistics is a set of procedures for gathering, measuring, classifying, computing, Describing, synthesizing, analyzing, and interpreting systematically acquired quantitative data. Descriptive Statistics gives numerical and graphic procedures to summarize a collection of data in a clear and understandable. Descriptive statistics measures of central tendency and measures of variability or dispersion.XDescriptive Statistics: Capital Goods: Pre - IFRSs (2008/09/10)

	N	Minimum	Maximum	Mean	Std. Deviation
ROI	10	17.19	55.53	32.77	12.89
Net_Income_NL	10	105.61	3747.06	1034.04	1399.90
Change_Sales	10	881.59	34757.42	9581.41	12018.59
Percentage_change_Total_Assets	10	703.27	15311.64	4396.77	5536.10
Percentage_Change_Equity	10	12.37	489.52	97.25	142.18
Assets_Turnover_Ratio	10	1.27	3.85	2.38	0.89
Book_Value	10	31.29	703.43	228.43	216.48
Earning_Per_Share	10	10.15	92.09	42.51	32.07
Percentage_Change_Networth	10	679.59	14408.98	4280.81	5323.27

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Table shows the descriptive analysis of capital goods companies for before implementation of IFRSs, its impact on financial statement and return on investment. IFRSs implementation would change earning of the companies and market value of the firms. Here table emphasis on standard deviation of Change in sales and it was impact on net income standard deviation.

Descriptive Statistics: Capital Goods: Post - IFRSs (2011/12/13)					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
ROI	10	11.69	38.90	24.64	8.28
Net_Income_NL	10	140.16	6555.30	1400.98	2226.97
Change_Sales	10	1281.18	52649.97	14267.83	18842.04
Percentage_change_Total_Assets	10	895.24	32938.64	7931.28	11527.79
Percentage_Change_Equity	10	11.27	489.52	104.81	141.08
Assets_Turnover_Ratio	10	1.09	3.31	2.23	.75
Book_Value	10	41.82	705.97	255.08	228.44
Earning_Per_Share	10	7.88	124.40	46.62	42.55
Percentage_Change_Networth	10	895.25	25404.00	7096.80	9735.19

The table indicated post performance of IFRSs and its impact on financial statement of the companies. Table shows high standard deviation on change in sales, it was same impact on before and after implementation of IFRSs in Capital Goods. Second high standard deviation on change in total assets of the companies while pre implementation it was net income.

Correlations: Capital Goods: Pre - IFRSs (2008/09/10)										
		ROI	Net_Income_NL	Change_Sales	Percentage_change_Total_Assets	Percentage_Change_Equity	Assets_Turnover_Ratio	Book_Value	Earning_Per_Share	Percentage_Change_Networth
Pearson Correlation	ROI	1.000	-.001	-.034	-.080	.196	.709	-.569	-.427	-.073
	Net_Inco	-.001	1.000	.990	.994	.755	-.150	.065	.421	.993
	Change_S	-.034	.990	1.000	.989	.699	-.098	.016	.352	.986
	Percentage_change	-.080	.994	.989	1.000	.742	-.206	.107	.453	.999
	Percentage_Change	.196	.755	.699	.742	1.000	-.039	.058	.353	.762
	Assets_Tu	.709	-.150	-.098	-.206	-.039	1.000	-.657	-.657	-.205
	Book_Valu	-.569	.065	.016	.107	.058	-.657	1.000	.899	.112
	Earning_P	-.427	.421	.352	.453	.353	-.657	.899	1.000	.460
	Percentage_Change	-.073	.993	.986	.999	.762	-.205	.112	.460	1.000
Sig. (1-tailed)	ROI		.499	.463	.413	.294	.011	.043	.109	.421
	Net_Inco	.499		.000	.000	.006	.340	.429	.113	.000
	Change_S	.463	.000		.000	.012	.394	.483	.159	.000
	Percentage_change	.413	.000	.000		.007	.284	.384	.094	.000
	Percentage_Change	.294	.006	.012	.007		.457	.437	.158	.005
	Assets_Tu	.011	.340	.394	.284	.457		.019	.019	.285
	Book_Valu	.043	.429	.483	.384	.437	.019		.000	.379
	Earning_P	.109	.113	.159	.094	.158	.019	.000		.090
	Percentage_Change	.421	.000	.000	.000	.005	.285	.379	.090	

Table shows correlation of the entire variable and its impact on each other, return on investment was dependent variable and its highest effected on asset turnover ratio, other variable had negative relationship. Most affected variable liked change in net worth and earning per shares, and net income. Assets turnover ratio was highly negative reference to other variables.

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Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.976[a]	.952	.784	5.99616	.952	5.658	7	2	.158
a. Predictors: (Constant), Percentage_Change_Networth, Book_Value, Assets_Turnover_Ratio, Percentage_Change_Equity, Earning_Per_Share, Net_Income_NL, Change_Sales									

The model summery indicates variability of explained variable with total variable. The model healthily relationship between all the variables. It is indicates that how all the variable in straight line fitted or not. Here all the controllable variable impact on each other.

ANOVA[a]						
Model		**Sum of Squares**	**Degree of Freedom**	**Mean Square**	**F – test**	**Sig.**
1	Regression	1423.988	7	203.427	5.658	.158[b]
	Residual	71.908	2	35.954		
	Total	1495.896	9			19.35

Anova table indicates how difference between group mean and its associated procedure, here F – test value is 5.66 while critical value was 19.35, so hypothesis was rejected. Table also shows the residual sum of squares was 71. 91 compared to sum of square of regression was 1423.91.

Correlations: Capital Goods: Post - IFRSs (2011/12/13)										
		ROI	Net_Income_NL	Change_Sales	Percentage_change_Total_Assets	Percentage_Change_Equity	Assets_Turnover_Ratio	Book_Value	Earning_Per_Share	Percentage_Change_Networth
Pearson Correlation	ROI	1.000	.471	.280	.251	.566	.176	-.156	.079	.314
	Net_Inco	.471	1.000	.942	.930	.882	-.296	.121	.238	.971
	Change_S	.280	.942	1.000	.990	.709	-.252	.112	.184	.989
	Percentage_change	.251	.930	.990	1.000	.666	-.364	.208	.263	.990
	Percentage_Change	.566	.882	.709	.666	1.000	-.127	-.061	.076	.763
	Assets_Tu	.176	-.296	-.252	-.364	-.127	1.000	-.605	-.529	-.346
	Book_Valu	-.156	.121	.112	.208	-.061	-.605	1.000	.950	.188
	Earning_P	.079	.238	.184	.263	.076	-.529	.950	1.000	.259
	Percentage_Change	.314	.971	.989	.990	.763	-.346	.188	.259	1.000
Sig. (1-tailed)	ROI		.085	.217	.242	.044	.313	.333	.414	.189
	Net_Inco	.085		.000	.000	.000	.203	.369	.254	.000
	Change_S	.217	.000		.000	.011	.241	.379	.306	.000
	Percentage_change	.242	.000	.000		.018	.151	.283	.231	.000
	Percentage_Change	.044	.000	.011	.018		.363	.434	.417	.005
	Assets_Tu	.313	.203	.241	.151	.363		.032	.058	.164
	Book_Valu	.333	.369	.379	.283	.434	.032		.000	.301
	Earning_P	.414	.254	.306	.231	.417	.058	.000		.235
	Percentage_Change	.189	.000	.000	.000	.005	.164	.301	.235	

Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.906[a]	.820	.191	7.44881	.820	1.303	7	2	.500	2.350
a. Predictors: (Constant), Percentage_Change_Networth, Book_Value, Assets_Turnover_Ratio, Percentage_Change_Equity, Earning_Per_Share, Net_Income_NL, Change_Sales										

The model summery shows indicate value of R – square. It was considering that test value is high correlation with independent variables. The value is 0.91; it was indicate that correlation is positive to straight line fitted.

ANOVA[a]						
Model		Sum of Squares	Degree of Freedom	Mean Square	F - Test	Sig.
1	Regression	506.229	7	72.318	1.303	.500[b]
	Residual	110.970	2	55.485		
	Total	617.198	9			19.35

The table shows sum of square on independent variable, that value was 506.23, and residual error on independent variable was 110.97. F – Test value is 1.303 while critical value is 19.35, so hypothesis is accepted.

VIII. FINDINGS AND SUGGESTIONS

Our results provide support to the firms which trail practice on International Financial Reporting Standards. While in observation saws pre and post implementation of IFRSs in capital Goods companies. There is not such significance difference in financial performance of companies. Specifically this sector to be more affect because those are firms highly related to infrastructure and development of the economy. Study only focus selected control variable that is high impact financial position and market value of the capital goods companies. It might be possible that short run it could not be seen negative impact on market value, but long run its give clear picture for nation to adopt IFRSs for growth of industry as well as economy.

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