

An Empirical Study on Indian Financial Reporting System

Dr. Jagdeep Singla*

Assistant Professor, IMSAR, MDU, Rohtak

Abstract – Accounting is a business language to communicate the rest world about the performance, state and growth of a firm or business. A wider acceptance of IFRSs is visible in more than hundred countries that have identified the requirement of the policy or implemented IFRSs in different ways. The purpose of present study is to measure the degree of preparedness among financial professional regarding the IFRSs implementation. This study employed random sampling to collect data from 120 financial professional using questionnaires. The 15 variables of preparedness were grouped in to 4 major factors through Exploratory Factors Analysis. The results showed that Organizational support plan was the most prominent factor followed by organizational resource plan. The results of the present can provide some useful recommendations to researchers and policy makers.

Key words: Chief Financial Officers, Preparedness etc.

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1. INTRODUCTION

The international accounting practices based studies are gaining attraction to meet the demands of the economic clients for financial information and; to facilitate International business activities smoothly from last few years. Understanding the need of single model regarding international accounting derive the concept of IFRS. The thought of International accounting convergence reflects its capability to minimize negatives effects resulting from diversity of accounting practices in various countries (Cordeiro et al. 2007)¹. A wider acceptance of IFRSs is visible in more than hundred countries that have identified the requirement of the policy or implemented IFRSs in different ways. To have an access to investment across the national boundaries, a country recognized as non IFRSs compliant country may gain an additional risk (Talat, 2007)². The IFRSs introduction to accounting world is going to change the accounting practices and will effects the working of listed companies in many countries surely. Fostering the environment to be IFRS friendly is viewed as historical regulatory change in accounting world to new level of accounting (Daske et al. 2008)³. For a smooth IFRSs implementation procedure, each interested party will have to form a strong team network and work together with coordination among law makers, regulators, auditors and accountants (Jain, 2011)⁶. Accounting thought for the adoption of IFRS for a nation does not include just the discussion on issues, differences, impacts and challenges only. The study by Shortridge & Smith (2009) 43 supported the

concept of preparedness of its professionals is critical to the adopting the change.

IFRS is a new concept in accounting world and new for India too. Success of a project launching depends upon the proper planning. Good and timely planning removes the many barriers and of course threats present in the environment. Same with IFRS implementation project, there is need of good planning and subsequent planning review to adjust the changes in the economic environment and IFRS world. The study is relevant to the research from the preparedness perspective demanding parallel study along with issues involved in implementation for a particular nation. For the preparedness in accounting, it is needed to check the readiness of accounting professionals having the knowledge to evolution of new dimension in accounting world of IFRS.

2. REVIEW OF LITERATURE

Accounting thought for the adoption of IFRS for a nation does not include just the discussion on issues, differences, impacts and challenges only. Ghosh (2010) examined that IFRS is going to bring a lot of changes in accounting world. The preparedness in accounting is needed to check the readiness of accounting professionals and financial professionals having the knowledge to evolution of new dimension in accounting world of IFRS (Pickerin et al. (2008). A study by Shortridge & Smith (2009) supported the concept of preparedness of its professionals was critical to the

adopting the change. The study was relevant to the research from the preparedness perspective demanding parallel study along with issues involved in implementation for a particular nation. **Smith (2008)** investigated how the use of IFRS had dramatically increased worldwide in recent years. The survey conducted by author stated, "Top corporate accounting officers are highly favorable for the acceptance of IFRS for financial reporting by all companies in all countries" and with that the IFRS have been perceived as difficult and challenging by practicing accounting professionals. Local, economic, cultural, social, institutional, political and several other factors function as barriers in the convergence of accounting standards (**Pajunen, 2010**). Moreover, the timing of the adoption in the form of preparedness is important for preparation and compliance level (**Kaplan and Beier (2007)**). The timing of adoption IFRS impacts its success, Goswami, S. & Sarkar, A. (2011) found that there were significant differences exist among early adopter and late adopter based on the nature of the disclosure. Also, earlier adopters attach higher importance to IFRS rather than late adopter. Level of importance is affected by mostly consequences of IFRS and perception of manageability of IFRS adoption. **Pickerin et al. (2008)** analyzed the perceptions of preparers on the transition cost and benefits. The results revealed, "preparers perceived many difficulties of implementation such as the uncertainty regarding interpretation of the standards and complexity of the standard themselves. This resulted in increased time and cost spent in discussion with auditors. **Walton Peter (2011)** specified areas such as accounting for financial instruments, accounting for income taxes and accounting for the impairment of assets were reported as difficult to obtain the necessary information to present the transactions or balances in accordance with IFRS".

From the last few decades, many studies had been undertaken by researchers highlighting the need of IFRS for the whole world under a single accounting system. Most of the literature found belong to the countries adopted the IFRSs already. Besides, papers stating the preparedness, importance and stipulated impacts that strike in the researchers mind theoretically set the main content of the work.

3. RESEARCH METHODOLOGY

To facilitate the study following research methodology was adopted:

3.1 Objective of the Study

The main objective of the study is to measure the degree of preparedness among financial officers regarding the IFRSs implementation.

3.2 Research Design

For the purpose of present study **exploratory cum descriptive** type of research design was adopted. It was descriptive in nature because it is based on the literature already existing in that particular area.

3.3 Sampling

The data were collected from a sample size of 120. The respondents were selected randomly from IT companies in NCR.

3.4 Data

The data regarding various aspects preparedness were collected with the help of a questionnaire. The data related to demographics were nominal in nature and the preparedness was measured on five point scale with the help of 18 statements.

4. ANALYSIS AND INTERPRETATIONS

This section represents the descriptive analysis of the variables used in this study. All the variables were selected and presented through figures, tables and percentages.

4.1. Demographic Characteristics of the Respondents

Table 1: The distribution of respondents according to Gender

Gender	Frequency	Percent
Male	72	60
Female	48	40
Total	120	100

The above table 1 depicts about the total numbers of respondents according to their gender. It shows that out of the total 120 respondents, 60 percent or 72 were male respondents and remaining 40 percent were female respondents considered as the sample for the study.

Table 2: The distribution of respondents according to age

Age	Frequency	Percent
20-30	19	16
30-40	38	32
40-50	33	27
Above 50	30	25
Total	120	100

When the age of respondents was considered, it was concluded that the majority of the Financial Professional 32 percent were from the age group of 30-40. It was followed by the age group of 40-50 which was 27 percent. The age group of above 50

carried 25 percentages of the total CFOs. The minimum number of respondents belonged to the age group above 20-30 with a number and percentage of 16 the total respondents.

Table 3: The distribution of respondents according to years of experience

Experience	Frequency	Percent
0-5	25	21
5-10	45	38
10-15	28	23
Above 15	22	18
Total	120	100

Reviewing at the data for years of experience, the survey results had shown that the majority of the respondents, 38 percent were having a work experience of 5-10 years, followed by 23 percent of respondents with 10-15 years of experience and the rest of the 21 and 18 percent of the respondents were having an experience of 0-5 and above 15 years of experience respectively.

Table 4: The distribution of respondents according to the nature of company

Nature	Frequency	Percent
IT	41	34
BPO	26	22
Both	53	44
Total	120	100

The majority of the respondents considered for the study, 44 percent were working in software organizations, 34 percent were rendering their services to IT firms and the rest 22 percent were working in BPO firms.

Table 5: The distribution of respondents according to the category of company

Category	Frequency	Percent
BSE	38	32
NSE	28	23
Both	54	45
Total	120	100

The category wise classification, as exhibited in table 5, revealed that the highest percentage 45 of the respondents were working in those firms registered in NSE and BSE both. It was followed by 32 percent of the respondents belonged to NSE firms and lastly, 23 percentage of the respondents serving BSE firms only.

5.2 The degree of preparedness among Financial Professionals

To measure degree of preparedness among Financial professionals a questionnaire was used to

collect data on five point likert scale. The respondents gave their responses for preparedness against a list of 18 variables. These 15 variables were grouped in to 4 major factors through Exploratory Factors Analysis. The KMO value of .728 showing that the sample size was adequate according to the number of statements and Bartlett's test of Sphericity was significant at 0.000.

Table 6: The results of Principal Component Factor Analysis with Varimax Rotation, Factor Loadings and Variance Explained for preparedness items

	Components				Communalities
	1	2	3	4	
Company has implemented IFRS training plan	.924				.871
Company clarifies IFRS changes to stakeholders	.918				.843
Board members are supportive towards IFRS implementation	.871				.903
Do you have knowledge regarding accounting policy changes and consequences changes	.843				.806
Development plan adopted by the company	.829				.757
Having previous knowledge of Internal financial reporting system	.713				.734
Company has made budget for IFRS implementation		.908			.987
Additional resources are required during the process of IFRS implementation		.891			.781
Company has formed a special department for IFRS		.861			.805
Company has formulated a team for IFRS implementation		.845			.709
The transition is handled effectively by the company		.719			.842
Do you have previous knowledge regarding IFRS			.854		.941
Companies staff is familiar with IFRS			.752		.802
Has company provided training or seminar when IFRS was introduced				.845	.824
Has any Course class provided by the company for IFRS				.619	.873
Eigen values	9.311	6.497	3.852	1.286	
Percentage of variance	22.101	19.733	12.946	11.739	

As it can be seen from the above table 6, first factor consists of 6 variables and it was labeled as "Organizational Support". This factor explained 22 percent of the variance. The second factor is a combination of the 5 variables and it was labeled as "Resource support". This factor shown 20 percent of the variance. The third factor was made up of 2 variables and it may be named as "Basic Knowledge" with a variance of 12. The fourth factor was a combination of 2 variables it was labelled as "Experience" representing a variance of 11.

5. CONCLUSION

The preparedness in accounting, is needed to check the readiness of accounting professionals and financial professionals having the knowledge to evolution of new dimension in accounting world of IFRS. Timing of the adoption in the form of preparedness is important for preparation and compliance level. In the present study the preparedness was measured with the help of 18 variables these variables were classified into five groups. The most prevalent factor among these was "Organizational Support Plan" followed by "Organizational Resource Plan". The fourth factor was "Experience" preceded by "Basic Knowledge". Last but not the least factor was "Training". As it

can be seen from the above results, the objective of the study is achieved.

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Corresponding Author

Dr. Jagdeep Singla*

Assistant Professor, IMSAR, MDU, Rohtak

jagdeepsingla@gmail.com