

CHAPTER 7

Conclusion, Findings and Suggestions

7.1 Conclusion

This research focused on the impact of Ind AS implementation on Indian corporate financial reporting. To achieve this purpose, at first, a study of the theoretical differences brought in by the Ind AS is undertaken in chapter 5 of the thesis. The reports issued by ICAI, other auditing firms like PWC and Deloitte are referred for the same. From the theoretical analysis, numerous financial variables have been identified based on the changes brought in by Ind AS to the different accounting standards. An analysis of selected financial variables and ratios has been calculated under AS and Ind AS for all the sample companies across the selected industries.

The research has assessed certain selected qualitative features of the financial reporting after the implementation of Ind AS based on the review of literature. The study of conservatism in financial statements has categorized the selected ratios into three categories using Gray's Index. The optimistic ratios represent those ratios which reported a higher value under Ind AS, the pessimistic ratios represent those ratios which are reported at lower level under Ind AS and neutral ratios indicate that the ratios remain unchanged during the transition. Among the qualitative features discussed in this research, the next one is the level of harmonization achieved when Ind AS was implemented. This refers to the role of accounting standards in harmonizing the accounting practices in the reporting entity. The progression of harmony is measured using C-Index starting from 2007 till 2017 on selected accounting practices with respect to assets and liabilities. The study of the level of disclosure considers the disclosure requirements prescribed by AS, Ind AS, Schedule III of Companies Act and selected voluntary disclosures.

The study of the Pre-Post period of Ind AS implementation is undertaken to analyze the long- term impact of Ind AS in financial reporting. Ratios are calculated for various industries of the sample for a period of four years prior to Ind AS adoption and four years after Ind AS adoption. Finally, correlation analysis is conducted to understand the relationship between the selected qualitative characteristics and the profitability of the reporting entity.

This research primarily attempted to achieve a comprehensive understanding of various implications associated with the introduction of Ind AS in the corporate

financial reporting of India. Different types of analysis are carried out and the major findings are summarized later.

7.2 Findings

- The study identified several changes brought in by Ind AS to the currently existing accounting standard in India (AS). The impact of Ind AS is analyzed on three bases. The general impact, impact on compliance, and impact on disclosure. It is observed that Ind AS is principle-based accounting standards and gives importance on substance over form. It also includes time value of money in calculating various provisions and reserves.
- Ind AS offers various exemptions for the companies in their first year of adoption. The reason being that without these exemptions, the financial impact can be huge and unprecedented for the Ind AS adopting company. There are mandatory exemptions and optional exemptions available to the enterprises. Optional exemptions allow companies a level of autonomy in choosing the reporting requirements to their need. For instance, the optional exemptions related to Ind AS 16, Ind AS 27 have had huge implications in various selected companies.
- The optional exemption given under Ind AS 16 related to the carrying value of PPE, have allowed the companies to disclose the carrying value of PPE under AS as deemed value under Ind AS. While pharmaceutical and IT industries have chosen to adopt this option, several automobile companies have opted for fair valuation of PPE during the initial transition. The result of this decision is evident from Table No. 6.16. Automobile companies have shown an 18% increase under Ind AS. At the same time, pharmaceutical companies and IT companies have shown a 0% and -1% increase respectively. The decision to elect the optional exemption has helped pharmaceutical and IT companies to reduce the impact of Ind AS transition in their balance sheet during the initial transition.
- Ind AS 8 have had a considerable impact on the profit of several companies under study. Tata Motors reported a decline of 53% in the EPS under Ind AS due to reversal of profit from sale of investments on common control entities which was an extraordinary item under AS. This reversal reduced the value of

PAT under Ind AS and subsequently it reduced the EPS reported under Ind AS.

- Ind AS 27 has played a crucial role in Biocon related to the sale of shares of a subsidiary, 'Syngene'. The sale of shares reflected in the "reduction in profit of the company primarily on account of fair valuation of investment in Syngene (a subsidiary) on the Ind AS transition date as deemed cost." As the item is extraordinary and Ind AS does not allow representation of extraordinary items. The same is reversed in the statement of profit and loss and shown directly in equity.
- The level of equity has increased across the complying companies. This would mean that the leverage has come down and the risk of equity shareholders has gone down remarkably under Ind AS. A lower leveraged company can attract more investments and get bank loans easily as the credibility of the company is comparatively high because of low debt.
- Even though the debt has decreased the level of debt in fixed assets has remained the same (Table No. 6.34 to Table No. 6.36) indicating that the decrease in debt is majorly due to reclassification of financial liabilities.
- Events after the reporting period (Ind AS 10) does not recognize proposed dividend as a liability for the financial year. This has caused a reversal of the proposed dividend in many sample companies. The reversal has reduced the provisions and increased the level of other equity. This is one of the reasons for the changes in other equity and provisions under Ind AS after implementation of Ind AS. Reversals of the proposed dividend increased the reserve levels reflected in other equity (Table No 6.12) in the companies across industries. Cancellation of proposed dividend from short term provisions brought down the provision of companies across industries.
- Goodwill is given special treatment under intangible assets. Internally generated goodwill is not recognized under Ind AS. Intangible assets are further classified as those with definite life and those with indefinite life. The recognition criteria of intangible assets under Ind AS have broadened the scope of intangible assets, the same has increased the level of amortisation among sample companies like Wipro and Info Edge (Table No 6.6)
- Ind AS brought in new terms like financial assets and liabilities into the balance sheet of the company. Items like debtors, creditors, loans and

advances, current investments, long term investments etc. are reclassified as financial assets or liabilities and the valuation of the same is undertaken based on fair valuation.

- There has been phenomenal change in EPS after the Ind AS implementation. In Biocon, for the calculation of EPS, the shares held by its own ESOP trust have not been considered as part of the number of equity shares under Ind AS. In AS, the same shares held by the trust are included in the number of equity shares. This difference has had a 53% change in the EPS of the company during the transition towards Ind AS (Table 6.10).
- Changes have also been observed in the treatment of financial instruments, lease, employee-based share payment, proposed dividend, and consolidated financial statement. Ind AS also gives utmost importance to disclosures. It is found that Ind AS requires hundreds of disclosures in a reporting entity's annual report.
- The introduction of Ind AS has not only increased the level of disclosure but also has managed to increase the level of compliance among the complying companies. Evidence for the same is included in the study of harmonization (Table No 6.103).
- Results of T-test (Table No 6.21) is used to study the significance in the various selected financial variables reveal that employee benefits (Table No 6.4), finance costs (Table No 6.8), other equity (Table No 6.12), current assets (Table No 6.13), long-term financial assets (Table No 6.18) have had a significant impact because of implementation of Ind AS. A similar result in financial assets and current assets can be seen in the studies of (Shobhana Swaminathan and Sindhu.Pdf, n.d.) and (Terzi et al., 2013) undertaken on IFRS.
- Ind AS 19 employee benefits expenses (Table No 6.4) have increased under Ind AS because of changes in the accounting treatment of actuarial gains and losses, especially in the automobile sector. Ind AS recognizes the actuarial gains/losses as part of equity. On the contrary, AS recognizes the same in the statement of profit and loss. The companies which had gains have experienced a decline in the value of employee benefits during transition while those companies which had actuarial losses have reported an increase in the value of employee benefits during the Ind AS transition.

- Depreciation (Table No 6.5), and Finance cost (Table No 6.8) have increased in manufacturing companies compared to service companies. There is a significant decrease in amortisation (Table 6.6) in the manufacturing industry under Ind AS and an increase in the IT sector indicating that the changes in intangible assets are relevant.
- The pharmaceutical sector had the most impact in the pharmaceutical sector. It is revealed from ratio analysis that pharmaceutical sector have reported the most changes on various ratios including debt equity ratio, debt ratio, current ratio, quick ratio, cash return ratios, profitability ratios and working capital turnover ratios.
- Ind AS has reclassified financial assets and liabilities culminating in increasing the level of current assets (Table No 6.13) across industries in many of the selected companies. It has also paved the way for a significant increase in long-term financial assets in automobile and IT industries (descriptive statistics of Table No 6.18). Studies undertaken by (Dritsas and Petrakos, n.d.) found a similar result regarding net assets under IFRS. It is important to note that here pharmaceuticals remain the same under both the accounting standards.
- Among all the selected variables, the automobile industry has reported the most impact in comparison to pharmaceutical and IT. This is in concurrence with the study reports published by RSM and ICAI. The IT industry primarily focusses on the service sector, and it is summarized that Ind AS does not have remarkable impact on service industries as compared to production sector except for long-term financial assets which have reported a significant increase in the IT sector.
- Results of T-test are used to understand the significance of the means of the selected financial ratios. Even though there are differences between the ratios under AS and Ind AS, statistical significance can only be identified for equity ratio (6.3.1.3) and assets turnover ratio (6.3.4.2). It is concluded that Ind AS has had an extraordinary impact on the revenue, equity, and assets of the reporting entity. This is consistent with the study of variables undertaken in the earlier part.

- The results of Gray's Index of Conservatism find out that of all the selected companies across various industries include equity ratio, current ratio, quick ratio, operating ratio, and ROE are recognized in the optimistic range. The results are concurrent with (Achalapathi & BhanuSireesha, 2015) who found out that liquidity and profitability ratios fall in optimistic range under IFRS. This result agrees with the ratio analysis undertaken. The conservatism study says that the implementation of Ind AS has reduced the level of conservatism in assets, equity, and revenue, the ratios related to these elements are found statistically significant because of Ind AS implementation.
- Gray's Index analysis reveals that with the decrease in level of debt used in the sample companies, the leverage has considerably declined, and it has been reflected in the return on capital employed. The ROCE has shown a pessimistic approach after the adoption of Ind AS. It is important to note that even after the introduction of fair valuation, the level of debt has not been increased.
- Results of C-Index say that the reporting entities reported a 100 percent harmony in only 8 accounting practices selected out of 20 accounting practices in 2007, on a contrast, by the time Ind AS was introduced in 2017, the items presented a 100 percent harmony increased to 15 accounting practices selected out of 20 accounting practices.
- It is important to note that with relation to many accounting practices there was minimal theoretical difference over the period of years. Despite this several reporting entities have achieved 100 percent harmony. This is evidence that Ind AS has significantly improved the compliance among the reporting companies. A higher level of harmonization can be achieved by bringing together various guidelines in alignment as shown by (Kumar, 2013)
- Inventory has depicted an increase of 115% in harmonization of accounting practices. This is because Ind AS requires the companies to follow uniform inventory cost methods for similar types of inventories. Under AS, the companies used diverse costing practices for different types of inventories.
- The study of the level of disclosure shows that statistically significant results were obtained from Ind AS 1, 17, 18, 36, 40, 105, and 107. This means that from 2007 till 2017, the level of disclosure of these standards has increased

remarkably. In other words, Ind AS have brought a comprehensive set of disclosures and paved way to a better disclosure level in reporting entity with respect to asset and revenue.

- Even though there is a crucial increase in the mandatory disclosures, it has been observed that the voluntary disclosure requirements are still at the 40% level. This finding is in concurrence with that of (Singh, 2013).
- The results of Pre-Post analysis find out the following.
 - Among the stability ratios, equity ratio and capitalization ratio are found statistically significant in pharmaceutical industry and IT industry suggesting the increase in equity investments in these industries. These industries have been using lesser debt compared to automobiles.
 - From the liquidity ratios, the current ratio is found statistically significant in the automobile industry and IT industry. Current assets have improved due to fair valuation of financial assets and current liabilities have decreased because of the exclusion of the proposed dividend.
 - With respect to profitability ratios, gross profit ratio and ROCE are found to be statistically significant in the IT industry and automobile industry suggesting that after the initial year of adoption, revenue has improved under Ind AS.
 - Turnover ratios like assets turnover ratio and inventory turnover ratio are found statistically significant in the pharmaceutical industry indicating that the efficiency of asset utilization has become better under Ind AS with the passage of time.
 - In the Pre-Post analysis, it is concluded that the pharmaceutical industry and IT industry has had remarkable impact because of Ind AS implementation. Even though automobile industry was affected in the transition year of 2016, later the significant impact is seen in pharmaceutical and IT industries.
- Correlation analysis find out that the profitability of company increases with the harmonisation of accounting practices and improvement of disclosure requirements. Gray's index has negative correlation between profitability,

harmonisation, and disclosure quality. This refers to the inverse relationship between conservatism and other variables. As conservatism increases profitability, harmony and disclosure quality goes down. Ind AS has tried to achieve lower level of conservatism by ensuring true and fair value in the financial statements. Hence it can be concluded that Ind AS has been successful in achieving its objective.

7.3 Suggestions

Ind AS proposed to bring highly transparent, less conservative, and harmonized accounting standards. Even though it has been achieved to an extent, there is still scope for improvement.

- Ind AS has introduced lots of new disclosure requirements but all of them focus on financial disclosure. In the era of ESG reporting it is important to improve the disclosure requirements of non-financial elements could further improve the level of transparency.
- The proposed dividend should be recognized in the reporting period only. The company is following the going concern principle, hence if the proposed dividend related to the concerned financial year is not shown in the particular year, it could be considered as a violation of going concern concept. When Ind AS does not recognize the proposed dividend, the same is reversed and added back to equity. From an accounting point of view, this is a mere reclassification which boosts the level of reserves even though the same would be gradually distributed as dividends.
- The reporting of extraordinary items helps the users of the financial reports to predict the income earning capacity of the enterprise in a reasonable manner. Under AS extraordinary items were disclosed in cash flow statements in addition to separate disclosure in financial statements. Under Ind AS, the extraordinary items are shown as part of equity which will increase the risk for the equity holder and the same window dresses the profit and loss statement by deliberately keeping certain losses out of the profit and loss statement. In an emerging economy like India, the companies should be able to provide with all possible information that helps the investors to take informed decisions.

- Inventory of a service concern is not mentioned in Ind AS 2. Service inventory is important in the case of the IT industry. Once the service inventory is accounted for, it helps in achieving a true and fair view of financial statements in the company. “Service inventory includes all process steps that are completed prior to the customer’s arrival.” It is the way in which the service enterprises keep themselves ready to offer service. It is important to account for such costs. This will bring forth a better understanding of the gross profit of service industries.
- During the initial year of adoption of Ind AS, the companies are offered certain exemptions. For instance, valuation of PPE. These optional exemptions which are not available under IFRS are creating a false reality of increase in assets during the transition year. This is observed from table no.6.14 and findings (Page 430) In order to ensure proper transparency and compliance, efforts are needed to reduce the carve outs and carve ins and steps needed to be taken for complete convergence with IFRS.
- Adoption Ind AS in the commercial banking sector is still pending. The Implementation of Ind AS in the banking sector would help in increasing the comparability of financial statements.
- There should be detailed guidance regarding the recognition and measurement of contingent assets. The probability analysis of contingent assets should be standardized.

Suggestions for Government

- The companies’ act has been revised before the implementation of Ind AS. However, the Income Tax act 1961 remains unchanged except for certain amendments. It is necessary to revise the IT act and put it at par with the newest accounting standards. Efforts should be taken in this direction to synchronize Ind as and direct tax structure in India.
- The government can make Ind AS internships as part of the new education policy. It will help the commerce students to get internships with CA firms and acquire practical insights along with the theoretical understanding of accounting standards.

- Ind AS is still not applicable to unlisted companies which have a net worth less than 250 crores. Bringing those companies under Ind AS compliance will increase transparency in Indian corporate structure.
- Block chain technology is the next big game changer in the field of auditing and financial reporting. The government should support the startups and other companies in developing accounting and auditing software using edge cutting technology.

Suggestions for ICAI

- The Institute can introduce certificate courses/diploma courses in Ind AS and IFRS with different specializations like Fair value accounting, MAT, ESG reporting etc., for M.com and B.com graduates. This would increase the skill level of students and would open job opportunities for them.
- The actuary valuation is used in the company for several purposes. Similarly, for the determination of fair value, the companies should use someone who is an expert in the field of Ind AS. A job of 'Fair Valuer' can be created and students/individuals who have completed the certificate course on Ind AS under ICAI can be hired for the same. This would ensure better valuation of financial assets and liabilities of an enterprise and create better jobs for the youngsters.
- Indian corporate financial reporting has various laws to govern them, agencies like SEBI to monitor the conglomerates. Still there are bigger and bigger scams happening in India. The real problem is the ethics in auditing. The auditors have been lacking professional ethics in undertaking an auditing assignment. They are also forced from the corporate and political sphere to ignore several red flags. Strict actions needed to be taken to ensure ethics in auditing.
- More research and developments are necessary to include the newly evolving business model in the standardized financial reporting scenario. The digital platforms are conquering the economy with their unusual business model. It is necessary to include them in the financial reporting scenario.

7.4 Scope for Further Study

- ❖ Further studies can be conducted using more financial variables and more years in the Pre-Post analysis as Ind AS is still going through amendments and clarifications.
- ❖ There is scope for understanding hedge accounting as per Ind AS and studies focussing on derivatives and hedge accounting.
- ❖ Disclosure analysis using advanced models can be conducted. The disclosure categories can be linked with the ESG reporting practices.
- ❖ Harmonisation of accounting policies in case of Statement of Profit and Loss can be done.
- ❖ Studies can be conducted by comparing the implementation of Ind AS in India and other emerging economies.

Definitions

The definitions for the accounting terminologies used in the thesis is given below.

Revenue – Sales including excise duty. “Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account.” (Ind AS 18)

Total Debt – Aggregate of long-term borrowings and short-term borrowings of a company.

COG – Revenue from sale of goods is adjusted for cost of raw materials, purchases and changes in inventory to calculate cost of goods sold.

Employee Benefits – The cost paid to employees including salary, post-employment benefits and other benefits. “Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment.” (Ind AS 19)

Depreciation – “The Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.” (Ind AS 16)

Amortisation – “The Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.” (Ind AS 38)

Provision for Financial Assets – The value recognised under expected credit model under Ind AS and under AS, provision is decided by the management estimates.

Finance Cost – Finance cost includes the interest paid, financial currency fluctuations and finance lease changes.

Deferred Tax – The deferred tax is calculated based on timing differences under AS and temporary differences under Ind AS.

Earnings Per Share – The earnings made by the company per equity share. Both basic EPS and Diluted EPS is disclosed in the annual report.

Other Equity – Other equity includes general reserve, retained earnings, cash flow hedging reserve, and FVTOCI reserve including cost of hedging reserve.

Current Assets – Current Assets include inventories, other current assets, and financial assets.

Current Liabilities – Current Liabilities include financial liabilities, other current liabilities, and provisions.

Working capital – The difference of current assets and current liabilities. Net working capital is Current assets – Current liabilities.

Property Plant and Equipment – “Property, plant and equipment are tangible items that: are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one period.” (Ind AS 16)

Financial Instrument – “A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.” (Ind AS 109)

Short Term Financial Asset – “A financial asset is any asset that is: (a) cash; (b) an equity instrument of another entity; (c) a contractual right: (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or (d) a contract that will or may be settled in the entity’s own equity instruments.” (Ind AS 32) when financial assets are categorised as short term/current in nature, they form part of short-term financial assets.

Long Term Financial Asset – “A financial asset is any asset that is: (a) cash; (b) an equity instrument of another entity; (c) a contractual right: (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or (d) a contract that will or may be settled in the entity’s own equity instruments.” (Ind AS 32) when financial assets are categorised as long term/non-current in nature, they form part of long-term financial assets.

Short Term Financial Liability – “A financial asset is any asset that is: (a) cash; (b) an equity instrument of another entity; (c) a contractual right: (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or (d) a contract that will or may be settled in the entity’s own equity instruments.” (Ind AS 32). When financial liabilities are categorised as short-term/current in nature, they form part of short-term financial liabilities.

Long Term Financial Liability – “A financial asset is any asset that is: (a) cash; (b) an equity instrument of another entity; (c) a contractual right: (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable

to the entity; or (d) a contract that will or may be settled in the entity's own equity instruments." (Ind AS 32). When financial liabilities are categorised as long-term/non-current in nature, they form part of long-term financial liabilities.