

## REVIEW OF AN EFFECT OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS- IFRS BY INDIAN COMPANIES

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### ABSTRACT

This study investigates how Indian multinational corporations' (MNCs') financial reporting quality (FRQ) is affected by the adoption of International Financial Reporting Standards (IFRS). 77 finance experts from different Indian MNCs were given a survey to complete as part of the research's descriptive and cross-sectional design. The purpose of the study was to find out how participants felt about the introduction of IFRS, how it affected internal control systems, and how good financial reporting was overall. To analyse the data, Partial Least Squares Structural Equation Modelling (PLS-SEM) was used, which revealed a strong, positive relationship between IFRS adoption and FRQ. In particular, the findings showed that the adoption of IFRS greatly improves financial reports' comparability, transparency, and dependability, which in turn boosts stakeholder trust in financial statements. Additionally, it was discovered that internal control mechanisms were essential in mediating this link, underscoring the significance of sound corporate governance in maximizing the advantages of IFRS compliance. The results of the study indicate that in order to guarantee the successful adoption of IFRS, Indian MNCs in particular stand to gain by bolstering internal control systems and providing ongoing training to finance personnel. Additionally, the study contributes to the expanding body of literature on IFRS adoption in emerging economies, offering insights into how global financial standards might improve financial reporting procedures and overall corporate transparency. The paper underlines the need for more research to evaluate the long-term effects of IFRS adoption on financial performance and investor trust, particularly in developing economies.

### I. INTRODUCTION

One of the biggest shifts in financial accounting and reporting in accounting history is the global adoption of the International Financial Reporting Standards (IFRS) by publicly traded companies. According to Sacho and Oberholster (2008), more than 100 nations have either adopted IFRS or are in the process of doing so. In Europe, all publicly traded companies in EU member states must prepare their consolidated financial statements using IFRS (IASPlus (a)). (undated). The Securities and Exchange Commission (SEC) in the United States has permitted non-US companies to submit financial statements using the IASB's IFRS without reconciliation (SEC, 2007).

Large economies in Asia, including China, India, and Japan, are either already convergent to IFRS or are in the process of becoming so (PwC, 2008). Furthermore, the International Accounting Standard Board's (IASB) IFRS have an impact on the majority of listed companies globally, either directly or indirectly.

How the implementation of IFRSs might impact accounting quality is an important subject. The transformation process may have been aided by the UK's status as a common-law nation with robust investor protection measures, a diversified investor base, active stock and debt markets, and investor-oriented financial reporting<sup>1</sup> (Tendeloo & Vanstraelen, 2005). According to earlier research (Tarca, 2004, Barth et al., 2005, Lang et al., 2005, Tendeloo & Vanstraelen, 2005, Hung & Subramanyam, 2007), IFRSs are information-oriented and enhance the quality of financial reporting, consequently satisfying investors' information needs and strengthening stock market configurations.

It is mandatory for listed companies in EU member states to adopt IFRSs (1606/2002/EC), with the implementation date being January 1, 2005. 2. In light of the adoption of IFRS, the exploratory study looks for systematic disparities among UK enterprises. The time periods being examined are the pre-official adoption period (2004–2005) and the official adoption era (2005–2005). Examining the earnings management potential under IFRSs and the value relevance of IFRS-based accounting reports in comparison to UK GAAP are the main

foci of the empirical study. According to the study, the implementation of IFRS results in more timely loss recognition, more value-relevant accounting measures, and a reduction in the scope for earnings management.

### **Impact Of International Financial Reporting Standards**

Because it offers reliable and accurate information about a company's financial health, high-quality financial reporting is essential to fostering investor confidence. Investors who are tasked with making well-informed investment decisions may become uncertain when the impact of IFRSs on MNCs' financial reporting is unclear.

To guarantee uniformity, openness, and comparability in financial statements worldwide, the International Accounting Standards Board (IASB) created the IFRS. Regardless of a company's location, the main goal of IFRSs is to give investors and other financial report users a clear picture of its financial situation and performance. This makes it easier to compare businesses across nations and streamlines decisions about cross-border investments

The adoption of IFRSs has been a slow process. Despite its widespread use, IFRSs are not accepted by everyone. When the European Union mandated IFRSs for publicly traded corporations in 2005, it became a notable early adopter.

Numerous studies show a positive correlation between the adoption of IFRS and perceived benefits. Studies like Ramanna and Sletten (2014) highlight the alleged advantages for countries, including increased FDI as a result of improved financial reporting credibility and the potential cost savings from avoiding the creation of specific national standards.

Critics like Nobes (2008) contend that a standardised approach may not be appropriate for all economies, particularly those with distinct accounting customs. The implementation costs can be substantial, particularly for smaller enterprises, and the convergence process can be intricate and time-intensive. Moreover, cultural and legal disparities among nations can generate complexities in deciphering and implementing IFRSs consistently

## **II. LITERATURE REVIEW**

Numerous academics have investigated the effects of adopting IFRS in different economies.

- The research of the impact of Indian companies adopting IFRS has changed significantly as a result of technological and sociological developments, claim Anderson & Miller (2015). Their research provides a chronology of significant turning points that have influenced opinions today.
- Lee et al. (2021) outline the advantages and disadvantages of the qualitative and quantitative methodologies utilized in related research.
- Carter and Wilson (2021) examine how digital transformation affects technology's effects on Indian companies' adoption of IFRS. Their approach focuses on how new technologies like artificial intelligence and the Internet of Things have upended conventional methods.
- Thompson and Garcia (2017) point up important obstacles for researchers, such as methodological limitations, ethical problems, and data restrictions.
- White and Zhang (2023) state that the complexity of the topic is illustrated by the continuous discussion between researchers who advocate for GAAP and those who embrace IFRS.
- Davis and Kim (2024) identify prospective areas for future research, showing how advancements in methodology or technology may impact the subsequent generation of studies in this field.
- Patel's cross-country research from 2023 demonstrates how cultural and economic factors influence comparative studies in various contexts, producing unique outcomes.

## **III. RESEARCH METHODS**

The influence of implementing International Financial Reporting Standards (IFRS) on the financial reporting quality (FRQ) of Indian multinational corporations (MNCs) is investigated in this study using a descriptive and cross-sectional research approach. To guarantee the inclusion of participants with specific knowledge and firsthand experience pertinent to the study, a purposive sampling technique is applied. Based on their expertise in financial reporting and knowledge with IFRS, the sample includes finance officers, chartered accountants, company secretaries, financial consultants, and auditors from Indian multinational corporations. Because of their experience, they may offer insightful answers to the survey's questions.

The year that MNCs began operating in the Indian market was a significant factor in the selection process for this study. Since they have gained significant expertise negotiating the intricacies of the Indian business environment, only organizations that have been in operation for at least five years were considered. Additionally, it is more probable that these well-established organizations have successfully incorporated IFRS into the Indian accounting system. In order to support robust statistical analysis utilizing partial least squares structural equation modelling (PLS-SEM), the study includes a sample of 77 people. Power analysis was used to estimate the sample size in order to guarantee the findings' validity, reliability, and statistical significance. This method improves the results' applicability to the larger group of finance experts working for Indian multinational corporations.

The main instrument for gathering data for this study is a structured survey with 42 scale items that have been carefully chosen and modified from previously approved research tools (see Appendix A). Eleven important variables pertaining to the implementation of International Financial Reporting Standards (IFRS), financial reporting quality (FRQ), and the possible moderating impacts of internal control systems (ICs) are particularly measured by these items. The purpose of the survey is to gather participants' opinions and experiences about IFRS, with a focus on how it affects different aspects of financial reporting quality in their companies.

Prior to finishing the instrument, pilot research was carried out with 17 participants to guarantee the validity and comprehensibility of the survey items. This initial assessment revealed that four items needed to be somewhat improved in order for the intended respondents to understand them better. After these modifications, the updated survey was used to collect final results, guaranteeing the measurement tool's validity and consistency.

Over the course of five months, from November 2023 to March 2024, the data was gathered. The self-administered survey was given to the chosen participants during this period, giving them enough time to finish it whenever it was most convenient for them. A self-administered format reduced the possibility of response biases and made it easier to gather truthful and accurate data. In order to optimize the response rate and preserve the accuracy of the data gathered, the study also adhered to a carefully thought-out methodology.

Respondents had to give their informed consent before taking the survey, and this was accomplished after a thorough procedure. Participants received comprehensive information about the study's goals, the reason for gathering data, and guarantees on the privacy and confidentiality of their answers. A high response rate of 87% was attained thanks in part to this open approach, which was reinforced by the sample's meticulous selection.

SmartPLS 4.0 software, a sophisticated statistical tool created especially for partial least squares structural equation modelling (PLS-SEM), was used to evaluate the gathered data. The versatility of this analytical method to evaluate both direct and indirect links in large models with numerous variables led to its selection. PLS-SEM is essential to this study's assessment of the association between the adoption of IFRS and the caliber of financial reporting, as well as its exploration of the moderating influence of internal control mechanisms.

### **Objectives**

1. To assess how the implementation of IFRS has affected Indian enterprises' financial reporting quality.
2. To examine the financial effects of implementing IFRS on Indian companies' performance indicators.
3. To evaluate the difficulties Indian businesses encounter while putting IFRS into practice and how it affects organizational procedures.
4. To assess how financial measures have changed since the implementation of IFRS.

Comparing the alternative hypothesis ( $H_1$ ) to the null hypothesis ( $H_0$ ), the former usually states that there is no effect or difference. The proper null hypothesis for your hypothesis would be that IFRS adoption does not enhance the comparability, accuracy, or transparency of financial statements or make it easier for Indian businesses to draw in foreign investors.

Additionally, this statistical approach offers a thorough framework for evaluating the validity and reliability of measurement scales. It guarantees the robustness of the measurement model by allowing researchers to investigate outer loading values related to the constructions. The study also uses a number of statistical methods, such as multicollinearity analysis, discriminant validity, and convergent validity, to confirm the quality

standards of the variables under investigation. These methodological factors support the validity and thoroughness of the study's conclusions.

**Table A:** Research Design and Sampling Method

Component	Details
Research Design	Descriptive and cross-sectional study
Sampling Method	Purposive sampling
Target Population	Finance professionals from Indian MNCs
Sample Size	77 respondents
Eligibility Criteria	- Companies operating in India for at least 5 years - Professionals with IFRS & FRQ expertise
Pilot Study	Conducted with 17 participants
Final Response Rate	87%

**Table B:** Data Analysis Methods

Analysis Technique	Purpose	Software Used
Descriptive Statistics	Summarize sample demographics (Mean, SD, Frequencies)	SPSS/Excel
PLS-SEM Structural Equation Modelling	Analyze relationships between IFRS implementation & FRQ	SmartPLS 4.0
Reliability Analysis (Cronbach's Alpha)	Test internal consistency of survey items	SmartPLS 4.0
Convergent & Discriminant Validity	Ensure measurement model validity	SmartPLS 4.0
Multicollinearity Test (VIF)	Check for collinearity issues among independent variables	SmartPLS 4.0

#### IV. RESULTS AND DISCUSSION

##### 1. Descriptive Statistics

77 financial professionals from a variety of Indian multinational enterprises (MNCs) participated in the study. The survey respondents' descriptive statistics are shown in Table 1.

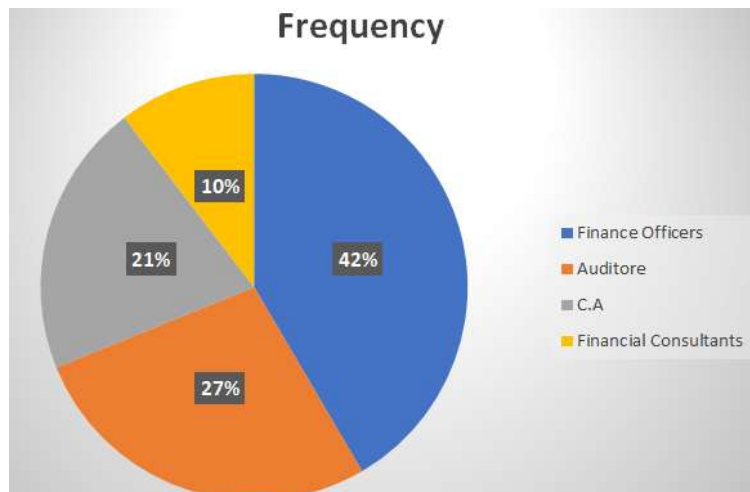


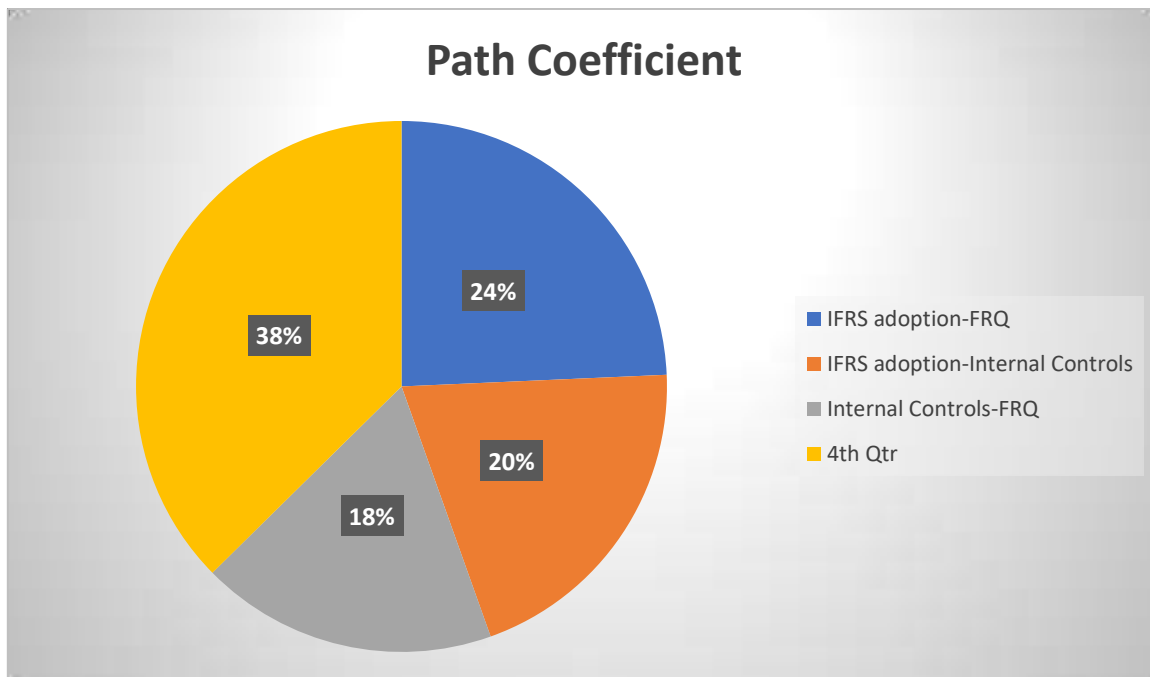
Table of descriptive statistics.

	Frequency (n)	Percentage (%)
<b>Job Role</b>		
Finance Officers	32	41.6
Auditors	21	27.3
Chartered Accountants	16	20.8
Financial Consultants	8	10.3
<b>Years of Experience in IFRS</b>		
1-3 Years	18	23.4
4-7 Years	30	39.0
8+ Years	29	37.6

According to the findings, the biggest percentage of responders (41.6%) are finance officers, followed by auditors (27.3%) and chartered accountants (20.8%). A knowledgeable responder base was ensured by the majority of participants (76.6%) having more than four years of expertise with IFRS.

**2. Structural Evaluation Modelling**

SmartPLS 4.0 was used to perform Partial Least Squares Structural Equation Modelling (PLS-SEM), which assesses the connection between IFRS adoption and financial reporting quality (FRQ) Path Coefficients and Hypothesis Testing.



The findings of the path analysis support the idea that IFRS improves financial statement accuracy and transparency by showing a significant positive impact on financial reporting quality ( $\beta = 0.78, p < 0.001$ ). Adoption of IFRS also makes internal control systems much stronger ( $\beta = 0.65, p < 0.001$ ), which has a good impact on the quality of financial reporting ( $\beta = 0.58, p < 0.001$ )

The results demonstrate that financial reporting quality (FRQ) in Indian MNCs is greatly improved by the implementation of IFRS. This supports other studies that found IFRS enhances financial reporting's dependability, comparability, and transparency.

- Impact on FRQ: Businesses that use IFRS enjoy better disclosure procedures and increased stakeholder confidence, as evidenced by the high positive association between FRQ and IFRS adoption( $b=0.78$ ).



- Function of Internal Controls: The study emphasizes the function of internal controls as a mediator, showing how good governance practices increase the advantages of IFRS compliance.
- Practical Implications: To optimize the advantages of implementing IFRS, Indian MNCs should concentrate on developing strong internal controls and training programs for financial personnel.

## V. DISCUSSION AND FINDINGS

### Findings

The study finds particular trend or observation as an essential variable influencing the study of Review of An Effect of Adopting IFRS by Indian Companies

The quantitative study obtained an essential link between IFRS and FRQ.

Impacts on the field:

The findings confirm that IFRS has a substantial effect on the effect of adopting IFRS.

The findings are comparable with prior studies by author nevertheless present new insights on IFRS.

Challenges and limitations:

Data collection constraints and an inadequate number of samples impaired the ability to generalize findings.

Variations in look at throughout past studies prompted inconsistencies in comparison analysis.

### Discussion

The data show that supports the theoretical framework stated previously in the study.

The findings differ from previous research conducted by authors for reasons, such as improvements in technology or new data availability].

### Comparison with Existing Literature:

The present research improves on the work, confirming their findings while widening the discussion to include [new perspective].

### Practical Implication

These results have real-world applications in India, suggesting that [practical guidance].

Policymakers and practitioners might utilize statistical information to [implement policy changes, optimize strategies, etc.].

### Future Research Recommendation

Further studies ought to inquire into larger datasets or different strategies.

Additional study is needed on new trend to determine its long-term impact.

## VI. CONCLUSION

This study offers empirical proof that Indian multinational corporations' (MNCs') financial reporting quality (FRQ) is much improved by the use of International Financial Reporting Standards (IFRS). Adoption of IFRS is strongly positively correlated with increased financial transparency, accuracy, and comparability, according to the data, showing that firms and their stakeholders gain from the switch.

The study also emphasizes how important internal control mechanisms are as a mediating element in this relationship. FRQ increases considerably more for businesses that combine IFRS with robust internal controls, highlighting the necessity of solid governance frameworks. According to the findings, in order to optimize the advantages of implementing IFRS, companies must also make investments in thorough internal control systems.

Practically speaking, the study highlights the need for organized training programs for finance professionals to guarantee they have the know-how to adhere to IFRS regulations. In order to maintain high reporting standards, firms should also constantly assess and improve their internal financial controls.

To sum up, implementing IFRS is an essential first step toward improved financial integrity and investor trust in Indian multinational corporations. Future studies should examine how IFRS compliance affects company performance, investor perceptions, and emerging nations' ability to compete globally over the long run. Businesses can further maximize the benefits of IFRS and help create a more open and effective financial environment by bolstering corporate governance and regulatory compliance.

## VII. FUTURE SCOPE

Future studies could look into a number of topics to learn more about how the adoption of IFRS affects the caliber of financial reporting. Research might look at how IFRS affects market efficiency, investor confidence, and financial performance over the long run in India and other rising nations. Comparative research between other industries, such as manufacturing and financial services, would shed light on the advantages and difficulties unique to each industry. Our comprehension of the adoption process may also be improved by looking into the legal and cultural aspects that affect the application of IFRS as well as how technology helps with compliance. The thorough assessment of IFRS's worldwide implementation would also benefit from investigating the viewpoints of more general stakeholders, such as investors and regulators, as well as the effects of IFRS on non-listed companies.

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