

Analyzing the Impact of IFRS Adoption on Financial Reporting Quality in Indian Corporations: Evidence from Primary Data

***Dr. Priti Gupta**

Abstract

In this study, Indian companies IFRS adoption financial reporting quality, and assuming the data is true, between 2014 and 2024, the profitability over the incurred period were main points. Major financial metrics like ROA (Return on Assets), ROE (Return on Equity), and NIM (Net Interest Margin) were inspected before and after the IFRS adoption to see whether the companies were really able to increase their earnings and if they had become more efficient in their operations. Regression analysis, paired sample t-tests, and ANOVA were used for the research which evaluated the connection between financial risk management and profitability by focussing on credit, liquidity, and market risk as the key factors. IFRS, on the other hand, had the highest gains, and this was when a manufacturing company had to be categorized when the results of the study were generalized. The adoption of IFRS across different sectors was tied to an increase in their profitability, whereas the manufacture sector had a large share in the total pie felt but credit, liquidity, and market are some of the risks that management needs to manage.

Keywords: IFRS Adoption, Profitability, Financial Reporting Quality, Risk Management, India

1. Introduction

One of the most important events in financial accounting for the past few decades was the introduction of the International Financial Reporting Standards (IFRS) literally. The primary objective of these standards is to make financial reporting uniform and transparent so that financial statements appear more comparable and trustworthy. The shift of India to IFRS has been extremely important for the sake of integrating the financial markets of the country with the world. The adoption and implementation of IFRS in Indian companies have been possible thanks to the Institute of Chartered Accountants of India (ICAI), which introduced the IFRS in a variety of forms and steps, with the first one being in 2011 for public corporations and moving to private companies later.

One of the main goals in moving to IFRS is to produce financial reports that are more reliable and more readily comparable. Therefore, the users of financial statements, such as investors, regulators, and analysts will have the possibility to make better decisions based on the relevant and top-quality

Analyzing the Impact of IFRS Adoption on Financial Reporting Quality in Indian Corporations: Evidence from Primary Data

Dr. Priti Gupta

financial information. Nevertheless, even though the advantages are real, the transition to IFRS has been confronting difficulties, particularly, in emerging economies such as India. IFRS complexity coupled with the need for a transformation of accounting methods have been the driving forces for the questioning of the benefits of these standards to improving financial reporting quality and for the effectiveness of Indian companies in making the changeover.

The reason for this research is to thoroughly analyze the knock-on effect of IFRS introduction on the financial statement preparation quality in Indian corporations. This research will be using gathered primary data from companies that have moved onto IFRS. The research will compare transparency, accuracy, and comparability of financial statements pre and post IFRS adoption. Moreover, the research will examine difficulties of Indian corporations in applying the standards and how they are taking a toll on the stakeholders' trust and the making of financial decisions. This research will be essential in the sense that it will bring new knowledge into the real-world situation of the emerging economies by looking at the experience that the Indian corporations had post IFRS adoption. Furthermore, it will also discuss the problems and solutions of the IFRS adoption process that took place in India through the strength and weakness. Create a sense of the IFRS adoption process in India that involves both strength and weakness and pave the way for future guidelines for good financial reporting through a framework created from the findings of the report.

2. Review of Literature

The shift from International Financial Reporting Standards (IFRS) to being the standard has become the main topic of many studies in recent years, especially those looking into the quality of financial reports as affected by the move in those far and near countries. This review compiles the results of studies of ten researchers from 2017 to 2024 that have published works on the subject of IFRS and its impact on the transparency, comparability, and overall quality of the financial statements.

In the research by Joshi et al. (2018), the main focus was on a post-IFRS implementation in India of financial statement comparability. It was discovered that after the introduction of IFRS, Indian companies favoured reporting lower consistency in their accounting practices. However, this could have the opposite consequences for investors as it could make the companies explicitly identifiable across boundaries and therefore, they could be more attractive to investors, rather than less attractive. But the truth is also that the research mentioned that the use of fair value measurements became one of the problems, which consequently culminated in the absence of required comparability in financial performance.

Srinivasan (2019) has studied the profitability ratios and financial disclosures of Indian listed companies resulting from the adoption of IFRS. According to the study, the overall situation in terms of the accuracy of profit reporting was improved with the IFRS but mostly had its positive impact on companies in the manufacturing and financial sectors. On the other hand, the implementation costs and initial learning curve era for full compliance was another of the study identified problems.

Analyzing the Impact of IFRS Adoption on Financial Reporting Quality in Indian Corporations: Evidence from Primary Data

Dr. Priti Gupta

Chand and Kumar (2020) investigating for the regulatory implications in the Indian through IFRS adoption started from the imposition of such rules in the environmental regulation and the litigation of financial disclosure, which pointed that even though the IFRS had increased the practicability of reportage, the Indian system was still behind the global standards considering some critical issues like the independence of the auditors and compliance monitoring.

Patel and Desai (2021) making a comprehensive study about IFRS's effect on India's conservatism in accounting found that the companies reporting Indian earnings the most conservatively were the banking and finance sectors having their own varying degrees. The analysis maintained that the general reduction of conservatism was a result of the IFRS-fair value accounting method, which opened doors for the more optimistic valuation methods.

In the study by Bhatia et al. (2022), the financial performance of multinational corporations was observed in India with regard to IFRS adoption. It was clear that the IFRS adoption had made the corporate finance performance more visible, particularly for companies having global operations. The same study, however, pointed out that training people, and updating the system for dealing with the IFRS complexities, were among the challenges.

Sharma and Gupta (2023) specifically examined the issue of IFRS adoption and its effect on the overall confidence of investors in the Indian capital market. Based on their investigation, the researchers drew the conclusion that the switch to IFRS had raised the investor confidence within the capital market as the financial information became more transparent and reliable. The study though admitted that the transition was all positive had high costs for the companies concerned and very significant awareness of International Financial Reporting Standards (IFRS) was to be conducted on a continuous basis for both the auditors and the finance professionals.

In their 2023 study, Reddy and Nair explored the connection of IFRS embrace to financial stability in the Indian banking industry. The results of their study show that the adoption of IFRS made the financial situation of banks more secure through the provision of more transparent and at the same time more standardized financial statements. These practices and results eventually led to a decrease of the systemic risk besides helping the banks get better credit ratings. The authors further concluded that the process of IFRS for small-sized banks was more challenging due to limited resources.

Verma and Patel (2024) delved into the difficulties that the IFRS adoption brought to the Indian startup scene, and the post-adoption challenges were the subjects of their inquiry. The major part of their study showed that the transition to IFRS brought about a wide variety of financial reporting challenges for startups, including cost control and the increased complexity of reporting procedures. They suggested that to make the adoption of IFRS easier for startups, policy makers could intervene selectively.

Kumar and Singh (2024) scrutinized the enduring consequences of IFRS on the quality of financial

Analyzing the Impact of IFRS Adoption on Financial Reporting Quality in Indian Corporations: Evidence from Primary Data

Dr. Priti Gupta

statements in India. They found in their research that the financial disclosures became clearer and more reliable after the adoption of IFRS which was especially true for listed firms. However, the study also highlighted the inertia of the enforcement bodies as well as the weakness of the auditors in the implementation of the IFRS principles.

3. Objectives

- i. To examine the impact of IFRS adoption on the financial reporting quality of Indian corporations.
- ii. To evaluate the effect of IFRS on the profitability and financial performance of Indian firms.

4. Research Methodology

The objective of this investigation was to analyze how the implementation of IFRS has affected overall financial reporting quality and profitability among Indian companies. The study was based on data which were obtained from NSE/BSE filings, Yahoo finance, and Money Control. They were the annual reports of both public and private sector companies which were using IFRS from 2014 to 2024. The study utilized the key financial performance metrics to assess the changes in profitability and the IFRS adoption. The study also considered variables like the ratios for the company's turnover of inventory and days sales outstanding and working capital ratios to evaluate the IFRS impacts on the broader financial performance and structure of the company.

The impact of IFRS on profitability was measured through the use of statistical tools such as descriptive statistics, trend analysis, multiple regression analysis, paired sample t-tests, and ANOVA. Descriptive statistics were used to give a summary of the trends in the main metrics, while regression analysis was applied to determine the relationship between IFRS adoption and profitability. Pared sample t-tests were used to make a comparison between pre- and post-adoption financial performances, and ANOVA was the tool used for identifying sector-specific IFRS impacts. Companies surveyed were from the listing of 20-30 companies and the sample was meant to have well-maintained diversity in the different sectors of business. But the study was really kind of limited because it used only data from another source, dealt with companies that were listed only, and did not include the qualitative factors such as management decisions and market conditions. However, this was kind of a wise way of showing that the adoption of IFRS had an impact on the transparency and profitability of Indian companies and going further to contribute to efficient understanding of global financial reporting standards within the context of India.

5. Results and Discussion

The statistical analysis aimed at exploring the correlation between IFRS lodging, the quality of financial reports, and the profitability of Indian companies in this study. Various quantitative techniques were put to use by the study to examine the financial performance of companies in the scenarios before and after the adoption of IFRS; these methods comprised descriptive statistics,

Analyzing the Impact of IFRS Adoption on Financial Reporting Quality in Indian Corporations: Evidence from Primary Data

Dr. Priti Gupta

regression analysis, paired sample t-tests, and ANOVA. Here, a discussion of the analysis and the interpretation of the results is as follows.

Descriptive Statistics and Trend Analysis

The very first step in the analysis was to compute very simple descriptive statistics (that is, mean, standard deviation, and range) to measure the performance of the financial indicators which are the key such as Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Earnings Before Interest and Taxes (EBIT). These statistics were for the 2014-2024 period and the aim of the analysis was to observe the trends before and after the adoption of IFRS.

Table 1: Financial Performance Before and After IFRS Adoption (2014–2024)

Period	ROA (%)	ROE (%)	Net Interest Margin (NIM) (%)	EBIT (%)
Pre-IFRS Adoption (2014–2018)	2.8	6.5	3.5	4.2
Post-IFRS Adoption (2019–2024)	4.1	10.3	4	6.1

Interpretation:

The average ROA used to stand at 2.8% which was considered as average, while ROE was at 6.5%, indicating a quite low profitability rate. Subsequent to the IFRS adoption, the average ROA hiked to 4.1%, and the ROE moved up to 10.3%, underlining the efficiency and profitability that IFRS adoption brought to the firm. In the same manner, the NIM rose from 3.5% to 4.0%, after the IFRS adoption, reflecting the better operating performance. The evidence from the trend analysis is that the IFRS adoption has a noticeable positive impact on the financial performance of Indian corporations with the major improvement in the performance metrics.

Regression Analysis

To discover the link that financial risk management practices (independent variables) and profitability (dependent variables) have, a multiple regression analysis was carried out. The risk management variables that were given the most weight in the analysis were credit risk, liquidity risk, and market risk. These were dependent variables regressed against independent variables ROA and ROE.

Analyzing the Impact of IFRS Adoption on Financial Reporting Quality in Indian Corporations: Evidence from Primary Data

Dr. Priti Gupta

Table 2: Regression Analysis – Impact of Financial Risk on Profitability

Independent Variables	Coefficient (β)	Standard Error	t-Statistic	p-Value
Constant	3.41	0.52	6.54	0
Credit Risk	-0.62	0.15	-4.13	0.001
Liquidity Risk	0.38	0.12	3.17	0.003
Market Risk	-0.44	0.1	-4.4	0
$R^2 = 0.74$	$\text{Adjusted } R^2 = 0.71$			

Interpretation:

It is evidenced by the fact that credit risk negatively impacts profitability for both ROA and ROE at the magnitude of -0.62 and -0.60, respectively. Moreover, the -0.60 ROE result implies that a higher credit risk level is usually accompanied by a lesser return on equity. In the case of liquidity risk, the positive influence ($\beta = 0.38$) was observed on the profitability, indicating that a higher liquidity risk level was associated with a better financial performance. Market risk also has a negative impact on profitability ($\beta = -0.44$); thus, it is indicated that market volatility affects financial outcomes.

Paired Sample t-Test

One of the possible outcomes of the t-Test statistical analysis was the observation of the companies' financial performance before and after implementing IFRS. The test was taken under consideration to check the means of the three variables, namely ROA, ROE, and NIM, before and after IFRS was adopted.

Table 3: Paired Sample t-Test Results for ROA, ROE, and NIM

Metric	Pre-IFRS Mean	Post-IFRS Mean	t-Statistic	p-Value
ROA (%)	2.8	4.1	-5.32	0.002
ROE (%)	6.5	10.3	-6.25	0.001
NIM (%)	3.5	4	-4.45	0.003

Analyzing the Impact of IFRS Adoption on Financial Reporting Quality in Indian Corporations: Evidence from Primary Data

Dr. Priti Gupta

Interpretation:

All of the p-values for ROA, ROE, and NIM were smaller than 0.05, which means that the changes in the profitability metrics for the companies before and after IFRS adoption were statistically significant. The findings propose that the transition to IFRS greatly boosted the financial performance of Indian companies, most especially in the areas of assets and the equity.

ANOVA (Analysis of Variance)

The financial performance across different sectors (e.g., banking, manufacturing, technology) was examined, and the ANOVA was performed to determine if IFRS adoption's impact was different in the various sectors.

Table 4: ANOVA Results – Financial Performance Across Sectors

Sector	ROA (%)	ROE (%)	NIM (%)
Banking	3.5	8	3.8
Manufacturing	5.2	12.3	4.5
Technology	4.1	10.2	4
F-Statistic	4.12	5.24	3.83
p-Value	0.004	0.002	0.003

Interpretation:

The ROA, ROE, and NIM F-statistics proved that there were indeed significant differences in profitability among the different sectors after the adoption of IFRS. ($p < 0.05$) The manufacturing industry was the one with the most significant changes both in terms of ROA and ROE, after the financial statement information was compiled under IFRS. The technology and banking industries came next in terms of their improvements in this area. This indicates that the industry with heavy capital investment (e.g., manufacturing) benefits more from the adoption of IFRS in terms of the quality of financial reporting and the company's success.

6. Conclusion

The reason for the financial performance comparison and report's profit and quality of both profitability and financial reporting in Indian corporations were the primary concern with the adoption of IFRS. In a closer view, this study was trying to understand how this transition to special global accounting standards has been affecting the financial results. The inspection of major financial

Analyzing the Impact of IFRS Adoption on Financial Reporting Quality in Indian Corporations: Evidence from Primary Data

Dr. Priti Gupta

data like ROA, ROE, and NIM showed substantial profit increases following IFRS adoption; this means that IFRS makes financial reports more transparent, comparable, and reliable. Based on the outcomes, it can be concluded that Indian companies have benefited positively from the IFRS adoption in terms of their financial performance, showing better profitability and operational efficiency. The research highlights the necessity of smooth implementation and regulatory frameworks that are in favor of proper financial reporting if the full advantages of IFRS in terms of the quality of financial reporting are to be experienced. Although going for IFRS turned out to be advantageous, it is necessary for the companies to still go with the risk management strategies and thus, the financial stability and profitability can be taken to a new level.

***Department of ABST
S.N.K.P Govt. College, Neem ka Thana**

References

1. Agarwal, S., & Kothari, S. (2017). The impact of IFRS adoption on accounting quality in India: Evidence from listed companies. *Journal of Financial Reporting and Accounting*, 15(2), 214-233.
2. Bhatia, S., Gupta, R., & Shukla, P. (2022). IFRS adoption and the financial performance of multinational companies in India. *Journal of International Business and Economics*, 28(4), 55-70.
3. Chand, S., & Kumar, V. (2020). Regulatory implications of IFRS adoption in India. *Indian Journal of Accounting*, 47(1), 85-96.
4. Joshi, R., Mehta, A., & Patel, M. (2018). IFRS adoption and financial statement comparability: Evidence from India. *Asian Journal of Accounting and Governance*, 10(1), 22-38.
5. Kumar, S., & Singh, A. (2024). Long-term effects of IFRS on financial disclosures in Indian companies. *Accounting and Finance Research*, 20(2), 34-47.
6. Patel, P., & Desai, R. (2021). IFRS adoption and accounting conservatism in Indian banks. *Journal of Financial Management*, 40(2), 67-80.
7. Reddy, M., & Nair, V. (2023). IFRS adoption and financial stability in Indian banks. *Journal of Banking and Finance*, 33(1), 44-60.
8. Sharma, N., & Gupta, R. (2023). Impact of IFRS adoption on investor confidence in Indian capital markets. *Indian Capital Markets Review*, 12(3), 123-138.
9. Singh, A., & Sharma, P. (2016). The role of tax incentives in the growth of start-ups in India. *International Journal of Business and Economic Research*, 5(2), 72-81.
10. Verma, S., & Patel, A. (2024). Post-adoption challenges of IFRS for start-ups in India. *Journal of Entrepreneurship and Innovation*, 19(4), 150-162.

Analyzing the Impact of IFRS Adoption on Financial Reporting Quality in Indian Corporations: Evidence from Primary Data

Dr. Priti Gupta