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FINANCIAL REPORTING EVOLUTION: A CASE STUDY OF IND AS IMPLEMENTATION OF INDIAN STEEL COMPANIES

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ABSTRACT

This article investigates the ramifications of the transition from Indian Generally Accepted Accounting Principles (IGAAP) to Indian Accounting Standards (Ind AS) on financial reporting within the Indian steel industry. In an era of global economic interconnectivity, the move towards aligning with international standards, notably International Financial Reporting Standards (IFRS), holds profound implications. The study underscores the paramount importance of transparency and comparability in financial reporting. The study employs the Gray's Comparability Index (GCI) to quantitatively assess the conservatism levels in reporting various financial statement items. The findings reveal that while assets, liabilities, and equity exhibit relatively consistent reporting under both standards, Ind AS demonstrates a propensity for greater optimism in the reporting of income, expenses, and financial activities.

INTRODUCTION

In today's globalized economy, the adoption of a uniform set of accounting standards is crucial for ensuring transparency, comparability, and reliability in financial reporting. International Financial Reporting Standards (IFRS) have emerged as the preferred choice for many countries aiming to enhance the quality and consistency of their financial statements. As a significant player in the global steel industry, India has also embarked on the path of convergence to IFRS in recent years.

This comparative study aims to examine the impact of the convergence process on financial reporting practices in the steel sector in India. Specifically, it focuses on the two main accounting frameworks followed in India, namely Indian Accounting Standards (Ind AS) and Indian Generally Accepted Accounting Principles (IGAAP), and analyzes their alignment with IFRS.

The steel industry holds strategic importance in India, contributing significantly to its economic growth and employment generation. Understanding the challenges and opportunities associated with the convergence process in this industry is crucial for stakeholders, including investors, regulators, and financial professionals. Therefore, this study concentrates on the steel sector to provide a focused analysis of the convergence journey and its implications on financial reporting.

Concept of comparability

The important principle involved in presenting financial information in a way that allows for meaningful comparisons between different periods, entities, or financial statements. Comparability is a fundamental concept in accounting and financial reporting, and it plays a crucial role in helping users of financial statements make informed decisions.

Here are some key points to explain this objective:

Consistency Over Time: Financial statements should be prepared using consistent accounting policies and methods from one period to another. This ensures that the financial performance and position of a company can be compared over time. Changes in accounting policies should be disclosed and explained in the financial statements to maintain transparency.

Comparability Across Companies: Financial statements should also be prepared in a way that allows for comparisons between different companies in the same industry or sector. This involves using standardized accounting principles and disclosure requirements so that investors, creditors, and other stakeholders can assess the financial health and performance of different entities.

Standardized Reporting: Accounting standards, such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS), provide guidelines and rules for preparing financial statements. Adhering to these standards enhances comparability because it ensures that companies in the same jurisdiction follow the same rules.

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Disclosure and Explanations: To enhance comparability, financial statements should include clear and comprehensive disclosures and explanations. This includes providing additional information about accounting policies, assumptions, and significant accounting estimates. This allows users to understand the basis for the reported figures and make meaningful comparisons.

Footnotes and Supplementary Information: Footnotes and supplementary schedules provide additional context and detail about the financial statements. They can help users understand any unique or non-standard transactions and events, further promoting comparability.

Management's Responsibility: Management of the company is responsible for ensuring that financial statements are prepared in accordance with accounting standards and that they provide meaningful and comparable information. External auditors play a role in providing an independent assessment of whether the financial statements are in compliance with accounting standards.

Investor and Creditor Decision-Making: Comparability is crucial for investors and creditors who use financial statements to assess a company's financial health, performance, and future prospects. They rely on comparability to make informed investment and lending decisions.

REVIEW OF LITERATURE

Kamala and mohapatra (2020) conducted a comparative analysis, assessing the impact of transitioning from Indian Generally Accepted Accounting Principles (IGAAP) to Indian Accounting Standards (Ind-AS) in select Indian industries. Their examination encompassed 38 variables derived from financial statements, including 12 items from the profit and loss account and 12 financial ratios. The findings of the study indicated a diverse impact on the financial statements of Indian companies resulting from this comparative analysis.

Amrita dutta, (2020) Amrita Dutta explored the motivations driving the convergence towards International Financial Reporting Standards (IFRS) and assessed the costs and benefits associated with the adoption of Indian Accounting Standards (Ind-AS) in place of IFRS. The study specifically focused on analyzing financial ratios of Wipro Co. Ltd. when applying both Ind-AS and IFRS. The research findings indicated that there were minimal variations in the ratios calculated under these two distinct accounting standards, a discovery with significant implications for stakeholders.

Atanu pramanick (2018) conducted a study that encompassed a comparative analysis of the financial statements of specific companies, scrutinizing their adherence to both Indian Generally Accepted Accounting Principles (IGAAP) and Indian Accounting Standards (Ind-AS). To measure the relative influence of these standards, the research made use of Gray's comparability index. The results indicated that, in most instances, the shift to Ind-AS did not result in significant disparities in the Profit & Loss statement and Balance Sheet when juxtaposed with IGAAP.

Paramjoth kaur (2019) a researcher, carried out a comparative analysis encompassing Indian Generally Accepted Accounting Principles (GAAP), International Financial Reporting Standards (IFRS), and Indian Accounting Standards (Ind-AS). The research aimed to scrutinize the key theoretical distinctions necessitating immediate attention for successful convergence. The findings underscored a positive aspect of Indian Accounting Standards, pointing out that there haven't been any substantial alterations when compared to Indian GAAP. However, the study also revealed significant disparities between IFRS and Indian-GAAP, indicating that Indian Accounting Standards may not be fully aligned with the evolving landscape of IFRS..

Revanayya kanthayya (2017) A research study embarked on a detailed comparative examination of balance sheets prepared in accordance with Indian Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). The study placed particular emphasis on quantitative distinctions within Indian IT firms, specifically Infosys and Wipro, scrutinizing significant balance sheet elements such as total assets, total liabilities, and total equity. Employing Gray's comparability index, the study brought to light significant findings, highlighting that under IFRS, both total assets and total equity displayed higher values in comparison to Indian GAAP. In contrast, total liabilities showed a lower value, and these differences held statistical significance.

Nageshwar rao, (2020) The researcher performed a comparative assessment of financial statements, with a focus on evaluating the congruence of financial reporting under IND-AS and IFRS for a selected sample of 10 publicly listed companies. The analysis encompassed various balance sheet variables, encompassing non-current assets, current assets, shareholders' equity, income items, and financial ratios. F-test statistics were employed in this comparative evaluation, leading to the conclusion that the adoption of IFRS and IND-AS had a favorable impact on the relevance of financial reporting. This was notably observed in the diminished gap between a company's book value and market value when adhering to these standards, as opposed to the disparities noted under Indian GAAP.

Dr Nisha karla (2016) In this research, the investigator explored the benefits and challenges linked to the implementation of IFRS in the Indian context, while also conducting a comprehensive examination of the notable disparities existing between Indian GAAP and IFRS. A sample of six companies was carefully chosen for scrutiny, with a focus on balance sheet and income statement data, as well as various financial ratios. To assess the hypotheses, T-tests were applied as the statistical method. The results indicated that the shift to IFRS did not produce statistically significant changes in the activity-based ratios of Indian companies. This implies that the transition to IFRS generally had an adverse impact on most of the activity-based ratios.

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Dr shilpa vardia (2016) This inquiry evaluated the significance of accounting information in terms of its value both before and after the adoption of International Financial Reporting Standards (IFRS). It employed adjusted R and regression models in the analysis. The comprehensive outcomes of this research demonstrated that subsequent to the implementation of IFRS, Earnings per share, Book value of equity, and company share prices displayed notable enhancements, underscoring improved value relevance in accounting information.
Rahul kamath (2014) The study had a central focus on examining how the adoption of IFRS influenced various financial aspects, encompassing financial risk, investment activities, and operating activities, within a group of eight Indian companies. The primary emphasis of the research revolved around balance sheet variables. In order to gauge the contrast between Indian GAAP and IFRS, the researcher applied T-test statistics. The outcomes of the study unveiled a favorable impact of IFRS adoption on investment and operating activities. Nevertheless, no noticeable improvement or escalation in financial risk or adherence to debt covenants was observed as a result of the transition to IFRS.

OBJECTIVES OF THE STUDY

1. To Compare financial statements prepared as per Ind AS and IGAAP

RESEARCH METHODOLOGY

For this study researcher use both the descriptive and analytical method
Scope of study: for this study select JSW Energy Company limited which are mandatory adopted Ind- AS in the year of 31st march 2016

Sampling method and sample : deliberately, one steel company have been select for this study they are JSW Energy company limited has started financial reporting in Ind-AS in the since 2016-2017,
Sources of Data : The study is based on secondary data. The data has been collected from the annual reports of select iron and steel Company.

HYPOTHESIS OF THE STUDY

1) H0: There is no significant difference in the balance sheet items reported under IGAAP and IND-AS
H1: There is a significant difference in the balance sheet items reported under IGAAP and IND-AS
Statistical Tools for Data Analysis: Statistical tools used for the study are average, percentage, Gray's Comparability Index (GCI) and statistical inferences like t-test

The study aims to quantitatively assess the comparability of financial reports prepared under different accounting standards, namely Indian GAAP and Ind-AS. To facilitate this comparison, the study employs Gray's Conservatism Index, which was introduced by Gray in 1980. This index is utilized to determine whether certain countries exhibit more conservative accounting practices than others. It quantifies the impact of diverse national accounting practices on profit measurement using the Conservatism Index formula: 1 – (RA - RD) / RA, where RA represents adjusted profits and RD represents disclosed profits.

Gray's Comparability Index is then applied to critical components of financial statements, including assets, liabilities, and equities prepared under both Indian GAAP and IFRS. This enables an assessment of the disparities between these significant elements, such as assets, equity, liabilities, income, and expenses, as reported under Indian GAAP and Ind-AS. The formulae employed for this index are derived from Gray's original concept, as further developed by Oliveira J., Azevedo G., Oliveira M., and Almeida S. in 2015.
The Index is calculated as under:

$$\text{GCI}_{\text{(Total Assets)}} = 1 - \frac{\text{Total Assets}_{\text{(Ind AS)}} - \text{Total Assets}_{\text{(IGAAP)}}}{\text{Total Assets}_{\text{(Ind AS)}}}$$

$$\text{GCI}_{\text{(Total Liabilities)}} = 1 - \frac{\text{Total Liabilities}_{\text{(Ind AS)}} - \text{Total Liabilities}_{\text{(IGAAP)}}}{\text{Total Liabilities}_{\text{(Ind AS)}}}$$

$$\text{GCI}_{\text{(Total Equity)}} = 1 - \frac{\text{Total Equity}_{\text{(Ind AS)}} - \text{Total Equity}_{\text{(IGAAP)}}}{\text{Total Equity}_{\text{(Ind AS)}}}$$

$$\text{GCI}_{\text{(Total Income)}} = 1 - \frac{\text{Total Income}_{\text{(Ind AS)}} - \text{Total Income}_{\text{(IGAAP)}}}{\text{Total Income}_{\text{(Ind AS)}}}$$

$$\text{GCI}_{\text{(Total Expenses)}} = 1 - \frac{\text{Total Expenses}_{\text{(Ind AS)}} - \text{Total Expenses}_{\text{(IGAAP)}}}{\text{Total Expenses}_{\text{(Ind AS)}}}$$

In this study Ind AS is taken as benchmark for analysing the accounting effect on major elements of financial statements of movement from IGAAP and Ind AS. Assets, equity, liabilities, income and expenses reported under IGAAP and Ind AS is kept in the denominator to analyse the effect of Ind-AS and IGAAP application on Indian accounting practices.

Table 1.1 GCI - Interpretation

	Total Assets	Total Equity	Total Liabilities	Total Income	Total Expenses
Pessimistic	<0.95	<0.95	>1.05	<0.95	>1.05
Neutral	[0.95 - 1.05]	[0.95 - 1.05]	[0.95 - 1.05]	[0.95 - 1.05]	[0.95 - 1.05]
Optimistic	>1.05	>1.05	<0.95	>1.05	<0.95

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As shown in Table 3.1 the principle followed by Gray (1980) involves three classification categories: pessimistic, neutral and optimistic. Description of these three categories is as under:

- **Pessimistic (suspicious):** Consisting index lesser than 0.95 for assets, equity, and income greater than 1.05 for liabilities and expenses.
- **Optimistic:** Consisting index higher than 1.05 for assets, equity, and income lower than 0.95 for liabilities and expenses.
- **Neutral:** Consisting index inthe range 0.95 and 1.05, involving some understanding.

Thus, for the elements of financial statements conservatism analysis can be performed using can be assessed using the following interpretations:

a) Suppose, "Total Assets" of IGAAP are greater (lesser) than IFRS, it indicates IGAAP are optimistic (suspicious) compared IFRS. Hence, IGAAP has lower (more) conservatism than IFRS.
b) Suppose, "Total Equity" of IGAAP is greater (lesser) than IFRS, it indicates IGAAP are optimistic (suspicious) compared IFRS. Hence, IGAAP has lower (more) conservatism than IFRS.
c) Suppose, "Total Liabilities" of IGAAP is greater (lesser) than IFRS, it indicates IGAAP are suspicious (optimistic) compared IFRS. Hence, IGAAP has more (lower) conservatism than IFRS.
d) Suppose, "Total Income" of IGAAP is greater (lesser) than IFRS, it indicates IGAAP are optimistic (suspicious) compared IFRS. Hence, IGAAP has lower (more) conservatism than IFRS. and
e) Suppose, "Total Expenses" of IGAAP are greater (lesser) than IFRS, it indicates IGAAP are suspicious (optimistic) compared IFRS. Hence, IGAAP has more (lower) conservatism than IFRS.

An attempt is made in this research to examine the effect of IFRS / Ind AS application on the performance of select Indian companies. The present research has taken variables of the study by Kamath and Desai (2014) by adding three more variables. The financial activities taken into consideration for the analysis i) financial activities, ii) investment activities, iii) operational activities. Each of the hypotheses formulated are statistically analysed with paired sample t-test at 5 % level of significance.

Comparison of balance sheet under IGAAP and IND-AS

TABLE 1.2

JSW Energy limited Financial position as per IGAAP and Ind-AS in the year of 2016

	Items	As per I-GAAP	As per Ind-as
1	Total assets	16,440.08	16,974.17
2	Total liability	8,255.09	8,382.04
3	Total equity	8,184.99	8,592.13
4	Total income	6,191.10	6,260.71
5	Total expenses	4,802.92	4,697.63
6	Operating activities	2,263.64	2,261.05
7	Investing activities	3,461.43	3,468.17
8	Financing activities	220.58	217.85

Source : Annual reports of jsw energy co.Ltd

JSW energy limited Balance sheet as per IGAAP and Ind-AS in the year of 2016

Items	As per Ind-as	As per I-GAAP	Difference	GCI Index
Total assets	16,974.17	16,440.08	534.09	0.968535133
Total liability	8,382.04	8,255.09	126.95	0.984854522
Total equity	8,592.13	8,184.99	407.14	0.952614777
Total income	6,260.71	6,191.10	69.61	0.988881453
Total expenses	4,697.63	4,802.92	-105.29	1.02241343
Operating activities	2,261.05	2,263.64	-2.59	1.001145486
Investing activities	3,468.17	3,461.43	6.74	0.998056612
Financing activities	217.85	220.58	-2.73	1.012531558

Source : Annual reports of jsw energy co.Ltd

Interpretation

From the above table shows that the total asset of GCI Index is : 0.9685 (Neutral) the "Neutral" range (0.95 - 1.05). This suggests that when it comes to reporting total assets, Ind-as and I-GAAP are relatively similar in their level of conservatism. There are no significant differences in their assessments of total assets.

The total liabilities of GCI Index is : 0.9849 (Neutral) the "Neutral" range (0.95 - 1.05). This indicates that Ind-as and I-

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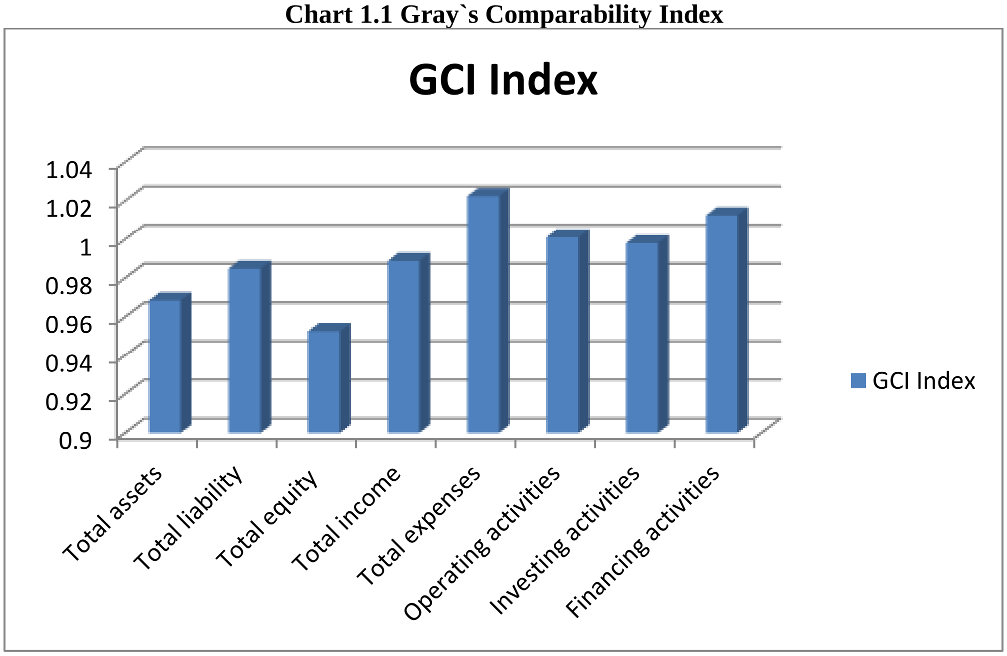
GAAP have similar levels of conservatism in reporting total liabilities. There are no major differences in their assessments of total liabilities.
The total equity of GCI Index is : 0.9526 (Neutral) "Neutral" range (0.95 - 1.05), indicating that Ind-as and I-GAAP have similar levels of conservatism in reporting total equity. There are no significant disparities in their assessments of total equity.

The total expenses of GCI Index is : 1.0224 (Optimistic) the "Optimistic" range (>1.05). This indicates that Ind-as is more optimistic than I-GAAP when reporting total expenses. Ind-as may report lower expenses compared to I-GAAP, suggesting a potentially more optimistic financial reporting approach for expenses.

The total income of GCI index The GCI Index can be calculated as the ratio of "As per Ind-as" divided by "As per I-GAAP," which is 6,260.71 / 6,191.10 = 1.0113. The GCI Index of 1.0113 falls in the "Optimistic" range (>1.05). the "Optimistic" range (>1.05). This suggests that Ind-as is more optimistic than I-GAAP when it comes to reporting total income. Ind-as may recognize higher income values compared to I-GAAP, indicating a potentially more optimistic financial reporting approach for income.

Operating activities of GCI is that 1.0011 (Neutral) the "Neutral" range (0.95 - 1.05). This suggests that Ind-as and I-GAAP have similar levels of conservatism when reporting operating activities. There are no significant differences in their assessments of operating activities.
Investing activities of GCI is that 0.9981 (Neutral) "Neutral" range (0.95 - 1.05). This indicates that Ind-as and I-GAAP have similar levels of conservatism when reporting investing activities. There are no major differences in their assessments of investing activities.
Financial activities of GCI is that 1.0125 (Optimistic) the "Optimistic" range (>1.05). This suggests that Ind-as is more optimistic than I-GAAP when reporting financing activities. Ind-as may report more favorable financing activity figures compared to I-GAAP, indicating a potentially more optimistic financial reporting approach for financing activities.

Chart 1.1 Gray`s Comparability Index



t test results

The t-statistic indicates that there may not be a significant difference between the means of the two samples. In a one-tailed test (negative direction), the p-value (0.0821) is greater than the chosen significance level (e.g., 0.05), suggesting that there is insufficient evidence to reject the null hypothesis. In a two-tailed test, the p-value (0.1643) also exceeds the significance level, indicating a lack of statistical significance in either direction. Overall, the results suggest that there is no strong statistical evidence to conclude that the means of the two samples are significantly different from each other. The similarity in means and variances supports this finding.

Outcome and Conclusion

The overall outcome of the study suggests that the transition from IGAAP to Ind AS has resulted in increased optimism in financial reporting, particularly in income, expenses, and financial activities. However, assets, liabilities, and equity remain relatively consistent in their reporting under both standards. while there are some differences in how Ind-AS and I-GAAP report certain financial metrics (especially income and expenses), overall, they exhibit a relatively similar level of conservatism in their assessments of assets, liabilities, equity, operating activities, and investing activities. However, Ind-AS appears to be more

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optimistic in reporting income and financing activities compared to I-GAAP. These differences can have implications for how investors and stakeholders interpret the financial health and performance of the company.In conclusion, the adoption of Ind AS in the Indian steel industry represents a significant step toward harmonizing accounting practices with international standards. While the transition has led to increased optimism in some financial statement elements, the overarching goal of improving transparency and comparability remains paramount. As the global financial landscape continues to evolve, research in this field will continue to be relevant, providing insights into the convergence of accounting standards and its broader implications for the business world.

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t-Test: Two-Sample Assuming Unequal Variances

	1	*1.03249*
Mean	1	1.03256
Variance	0	0.00059
Observations	2	2
Hypothesized Mean Difference	0.03254	
Df	1	
t Stat	-3.78888	
P(T<=t) one-tail	0.082139	
t Critical one-tail	6.313752	
P(T<=t) two-tail	0.164277	
t Critical two-tail	12.7062	