Does the Transition to Ind-AS increase the value relevance of Financial Statements? 
Empirical Analysis of Top Listed Firms in India

MANPREET KAUR* 
SURENDRA S. YADAV**

Abstract
In order to align with the global standards, Indian companies have adopted Ind-AS (Indian Accounting Standard Converged with IFRS) from 1st April 2017 to report their financial information and streamline the reporting practice. In this backdrop, this study is an attempt to provide an insight on how this transition will affect the value relevance of financial reporting by Indian companies. We draw insights from Ohlson model of value relevance to investigate whether the financial statements after adoption of Ind-AS have become more value relevant or not. Our findings indicate that the earnings of the company have become more value relevant in post adoption period as compared to pre-adoption period. However, book value which was value relevant in pre-adoption period is no longer value relevant for investors of the select companies after Ind-AS adoption. Further, industry specific results measuring the impact on value relevance are mixed which generate scope for further research on specific sectors.

I. Introduction
TODAY, COUNTRIES ALL over the world are moving towards globalization with capital markets becoming increasingly global. As a result of this globalization and financial integration, there is an indispensable need for a common set of standards in financial reporting. This is more so now that companies are no longer confined to domestic boundaries, but are influenced by this global presence. Expanding cross-border transactions and investment are driving increased interest as well as pressure to enhance the quality of financial reporting throughout the world. A major breakthrough came in 2002, when the European Union (EU) adopted legislation that required every listed company in Europe to implement the International Financial Reporting Standard (IFRS) in their consolidated financial statements. This legislation came into effect in 2005 and applied

* Associate Professor, Bharati Vidyapeeth Institute of Management and Research, Department of Management, A-4, Paschim Vihar, Rohtak Road, Delhi 110063, INDIA
** Professor and Former HOD, Indian Institute of Technology, Department of Management Studies, Viswakarma Bhawan, Shaheed Jeet Singh Marg, Delhi 110016, INDIA

Submitted December 2018; Accepted February 2020
This study, therefore, has examined the preliminary impact of Ind-AS on the value relevance of accounting information, as these standards were only implemented recently, and it has serious implications for a few industry types where the results are counterintuitive and call for further investigation. Also, the impact on accounting quality after adopting Ind-AS could be examined using earnings management, earnings timeliness and credit relevance approach not used in this study. A cross-country study of emerging economies could be carried out for generalization. There is no doubt that the transition to Ind-AS has been an uphill task for Indian companies due to significant differences between GAAP and Ind-AS, but it was made easier by the government through its phased implementation. Banks and insurance companies which have not yet implemented them can go ahead with adopting new standards, as our study concludes that Ind-As enhances the accounting quality by making it more value relevant. They can revisit the changes made during phase 1 in terms of internal controls, modification of IT system and processes etc. for a smoother transition. It can be safely concluded that adopting Ind-AS in India has moved the nation a step closer towards being transparent, internationally competitive and viable in the areas of financial reporting.

References


© Indian Institute of Finance


© Indian Institute of Finance


© Indian Institute of Finance


© Indian Institute of Finance