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Assessing the Influence of IFRS Adoption: A Comprehensive Analysis of Financial Statements in the Indian Automobile Sector

Dr. Ruchi H. Desai[1], Dr. AnilKumar R. Maisuriya[2], Mr. Mohammadali K. Momin[3]

[1]Assistant Professor &Head, Department of Accountancy, SASCMA English Medium Commerce College, Surat, affiliated to VeerNarmad South Gujarat University Surat.

[2]Assistant Professor & Head, Department of Statistics, Agarwal Vidya Vihar English Medium College, Surat, affiliated to VeerNarmad South Gujarat University Surat.

[3]Research Scholar, Department of Commerce, Dolat-Usha Institute of Applied Sciences and Dhiru-Sarla Institute of Management & Commerce Valsad affiliated to Veer Narmad South Gujarat University Surat.

ABSTRACT

The adoption of IFRS is crucial in fostering transparency, comparability, and consistency in financial reporting practices globally. The researcher attempts to analyse the effects of the adoption of International Financial Reporting Standards (IFRS) on the financial statements of selected companies in India. Assessing this impact is essential for stakeholders seeking a clear understanding of companies' financial positions and performances in the post-IFRS era. The study analyses financial ratios related to liquidity, profitability, and investor valuation over a span of 10 years, dividing the timeline into pre-IFRS (2012-2016) and post-IFRS (2017-2021) periods. Thus, this study helps in understanding the impact of IFRS adoption on financial statements in the Automobile sector in India. The Gray Comparability Index was deployed to calculate the relative effect of IFRS on accounting information. Furthermore, the Paired Sample t-test was used to evaluate the statistical significance of any changes observed. The findings disclose that the Gray's Comparability Index exhibits an improvement in accounting information during the post-IFRS period. However, the Paired t-test outcomes advocate that the adoption of Ind AS did not lead to significant changes in the financial statements during the post-IFRS period. The paper concludes by emphasizing caution in generalizing the results due to the small sample

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size. This implies that while there are indications of improved accounting information under IFRS, the findings may not be universally applicable, and individual company circumstances should be considered. However, the limitations of a small sample size highlight the need for further research to validate and generalize the results.

Key words: International Financial Reporting Standards (IFRS), Financial Ratio, Ind AS**.**

1. Introduction

The increasing globalization of the world and the explosion of multinational corporations have emphasized the importance of harmonizing accounting standards across countries. This global trend has created the need for a common language in corporate reporting to simplify understanding and comparability of financial information on an international scale. International Financial Reporting Standards (IFRS) have emerged as a solution to address this need, serving as a common template for business affairs.

The adoption of IFRS is crucial in fostering transparency, comparability, and consistency in financial reporting practices globally. As more countries and companies adopt these standards, the aim of a common global language for corporate reporting becomes ever more attainable. This will facilitate cross-border transactions and make international capital markets more efficient and effective by providing stakeholders a unified framework for assessing and understanding financial information.

IFRS attained momentum in the year 2005 when the European Union mandated listed companies in Europe to adopt IFRS for their consolidated financial statements. Due to this many companies across 30 countries, including major economies like the UK, France, Spain, and Germany, had embraced IFRS. In many countries of Asia and Africa the adoption of IFRS became mandatory. Moreover, countries such as Australia, Hong Kong, New Zealand, the Philippines, and Singapore converged their national accounting standards with IFRS. While the US and Japan remain significant exceptions due to their continued use of national accounting standards, many multinational corporations based in these countries utilize IFRS for their foreign consolidation purposes.

In India, the transition to IFRS was initiated through the introduction of Indian Accounting Standards (Ind AS) in a phased manner. Ind AS represents the convergence of Indian Generally Accepted Accounting Principles (IGAAP) with IFRS. These standards incorporate IFRS principles with some modifications to accommodate local requirements and practices. These modifications comprised of changes in terminology, the addition or elimination of options and disclosures, adjustments to

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presentation requirements, and modifications to principles for recognizing assets, liabilities, income, and expenses.

Thus, the introduction of IFRS in India represents a paradigm shift in financial reporting standards. Assessing this impact is essential for stakeholders seeking a clear understanding of companies' financial positions and performances in the post-IFRS era.

2. Literature Review

The literature review helps in better understanding about the impact of IFRS convergence across different regions, focusing on various aspects such as accounting information quality, accounting ratios, efficiencies of firms, and the effects on financial statements and cash flows. Such research is mainly carried out in many European countries including UK, Spain, Portugal, Germany, France, Greece, Finland, Turkey, Nigeria, New Zealand, etc. Most of the studies have been carried out in the European countries during 2005 to 2012. Limited work has been done with respect to Indian companies which is discussed here.

Ball's (2006) Perspective on IFRS emphasizes that IFRS considers investors as the main users of financial statements. IFRS is seen as reflecting economic gains and losses timelier and providing greater value relevance in a shareholder-oriented system.

Hung, M. and Subramanyam, K.R (2007) analyzed the impact of adopting International Accounting Standards (IAS) using the financial statements of German firms. Findings showed significantly higher total assets, book value of equity, and income under IAS compared to German GAAP.

Callao et al.'s (2007) Studied 26 listed companies in Spain to examine the impact of IFRS adoption, reporting changes in the reconciliation statement and the book to vpv; market ratio. Findings reveal an increase in long-term and total liabilities and a decrease in debtors and shareholder equity.

Capkun et al. (2008) showcased mixed findings regarding the impact of IFRS. They employed the Owson Model to examine the Pre- and Post-IFRS period's relative value relevance in Greece.

Lopez and Viana (2008) in their study focused on the total population of listed companies (44) on the Portuguese stock exchange that provided reconciliation statements for the transition to IFRS. The findings proposed that more companies were positively affected concerning shareholder equity and net profit.

Collette E. Kirwan and Aileen Pierce (2017) analysed the impact of IFRS on accounting standards primarily applicable to private

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companies with limited shares in the Republic of Ireland.

Sandhya Bhatia and Arindam Tripathy (2018) measured the efficiencies of selected IT firms in India using Data Envelopment Analysis (DEA) based on window analysis. Statistical analysis show that relative gross, technical and scale efficiencies of the firms remain relatively unchanged with a switching of accounting standards from IGAAP to IFRS.

Downes, J. F., et al (2018) investigated the effects of the mandatory adoption of IFRS by the European Union on the relationship between accounting estimates and future cash flows. Focused on the quality of financial information within the International Accounting Standard Board conceptual framework and found improved forecasted accounting value estimates after adopting IFRS.

Olivera Gjorgieva Trajkovska, et al. (2018) analysed the effect of IFRS adoption by the European Union, considering expenses and gains from implementation and their impact on capital market efficiency. Findings showed mixed results, suggesting economic and firm-specific differences among nations attributed to IFRS adoption.

Study by Ahmed Kouki (2019) revealed that non-IFRS firms, post-convergence, exhibited higher quality accounting information compared to the pre-convergence period. The findings suggest a stronger relationship between accounting information, stock prices, and stock returns over both time frames, although the difference in results was not statistically significant.

Amrutha Pavithran (2019) researched about the impact of IFRS on S&P BSE100 firms and found a significant impact on accounting ratios after convergence with IFRS.

Hence, there is a dearth of literature in Indian context. So, there is need for understanding the impact of IFRS in the Indian context and to identify the impact of IFRS adoption on the key financial ratios of the companies from different angles, like the stability, profitability, liquidity and capital structure.

3. Objectives of the Study

The objectives of the study are clear and focused on assessing the impact of the adoption of International Financial Reporting Standards (IFRS) on the quality of financial statements in the context of the Automobile industry in India. The specific goals are:

I Analyzing Financial Performance:

Objective: To analyse the financial performance of three selected listed Indian companies from the Automobile industry that have successfully adopted IFRS.

Rationale: This objective focuses on understanding the specific financial performance of companies after adopting IFRS,

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aiming to identify any changes or trends that may have occurred.

II. Studying and Comparing Financial Performance:

Objective: To study and compare the financial performance of the selected companies in the pre and post IFRS adoption periods in India.

Rationale: This objective enables a comprehensive examination of how the adoption of IFRS has influenced financial performance over time. Comparing Pre and Post-adoption periods allows for a deeper understanding of the impact.

III. Calculating Gray's Index of Comparability:

Objective: To calculate the Gray's Index of Comparability for the four listed Indian companies from the Automobile industry.

Rationale: Gray's Index of Comparability provides a quantitative measure of the comparability of financial statements. This objective aims to assess how consistent and comparable the financial statements are among the selected companies.

These objectives collectively contribute to a thorough evaluation of the effects of IFRS adoption on financial statements' quality in the Automobile industry. The specific goals are well-structured, and the combination of qualitative and quantitative analysis methods is likely to provide a comprehensive understanding of the research topic.

4. Research Methodology

The section highlights detailed information about the sample size, data collection method, variables used in the study, and the timeframe for the analysis.

4.1 Sample Size:

Selection Criteria: Four listed Indian companies from the Automobile industry belonging to the Nifty 50 Index.Viz (i)Tata Motors (ii)Maruti (iii)Bajaj Auto (iv)Mahindra & Mahindra

Ratios as Variables:

- Profitability Ratios: Net Profit Margin, Return on Capital Employed, Asset Turnover Ratio
- Liquidity Ratios: Current Ratio, Quick Ratio, Inventory Turnover Ratio
- Investors Ratios: Basic Earnings Per Share, Book Value to Market Price, Earnings Yield

Time Period forResearch: Ten years, spanning from the financial year 2011-12 to 2020-2021.

- Pre-IFRS (2012 to 2016): 5 years
- Post-IFRS (2017 to 2021): 5 years

4.2 Source of Data:

Data was collected from secondary sources like financial statements of the selected companies and relevant financial reports. All relevant data and information have been collected from published literature like books, journals,

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articles, reports; regulatory rules formulated by authoritative bodies; news and feature articles published in financial dailies, finance-based magazines, and periodicals.

4.3 Statistical Hypothesis:

$H_0$1: There is no significant difference between pre and post IFRS adoption financial performance of selected companies in India

$H_1$1: There is significant difference between pre and post IFRS adoption financial performance of selected companies in India

$H_0$2: There is no significant difference among selected companies regarding Gray‘s Comparability Index in India.

$H_1$2: There is significant difference among selected companies regarding Gray‘s Comparability Index in India.

4.4 Limitations of the Study:

- The authenticity of secondary data is usually questionable and so it may affect the reliability of the study's results.
- Financial ratios, while derived from audited accounts and an authentic database, have inherent limitations. Limitations, such as expected positively skewed/non-normal distribution, can affect the accuracy or representativeness of the ratios, influencing the study's outcomes.
- IFRS implementation became mandatory in India from 1st April 2016.The post-implementation study is limited by the mandatory implementation date, potentially constraining the duration of the post-IFRS analysis.
- Despite using quantitative statistical methods, the generalizability of the research is limited. The study might face challenges in applying its findings to a broader context or population beyond the specific companies and time frame studied.

5. Data Analysis and Findings

The present research studied the impact of IFRS adoption on the financial ratios of Automobile Industry Indian companies. To analyse the samples, financial ratios were used under the categories Investors ratios, Liquidity, and Profitability. Further using the Gray Comparability Index to analyse the relative effect, and Paired Sample t-test used for testing the statistical significance differences in mean values.

5.1 Ratio Analysis:

Initially, measures of descriptive statistics are presented to describe the main features of each of the ratios calculated. The table number 1, 2, 3 and 4 indicates the Investors, Profitability and Liquidity ratios considered for the study with average performance and variability of measures of standard deviations.

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Table 1: Ratio Analysis for Investors' Ratio Analysis for Tata Motors

Year	Basic EPS (Rs.)	Book Value/ Share (Rs.)	Earnings Yield	Net Profit Margin (%)	Return on Capital Employed (%)	Asset Turnover Ratio (%)	Current Ratio	Quick Ratio	Inventory Turnover Ratio
2021	-6.59	49.77	-0.02	-5.09	-3.46	72.28	0.60	0.43	10.33
2020	-21.06	51.11	-0.29	-16.59	-7.18	70.18	0.53	0.38	11.46
2019	5.94	65.26	0.03	2.91	11.57	113.61	0.58	0.37	14.84
2018	-3.05	59.39	-0.01	-1.75	5.04	99.35	0.62	0.38	10.38
2017	-7.15	62.31	-0.02	-5.48	-1.19	75.26	0.59	0.33	7.98
2016	-0.18	68.50	0.00	-0.14	5.31	75.59	0.63	0.36	8.37
2015	-14.72	46.17	-0.03	-13.05	-16.02	72.67	0.42	0.19	7.56
2014	1.03	59.58	0.00	0.97	2.75	68.94	0.36	0.15	8.88
2013	0.93	59.98	0.00	0.67	0.97	85.78	0.48	0.27	10.05
2012	3.90	61.84	0.01	2.28	3.84	99.60	0.62	0.41	11.84
Average	**-4.10**	**58.39**	**-0.03**	**-3.53**	**0.16**	**83.33**	**0.54**	**0.33**	**10.17**
SD	**8.49**	**7.14**	**0.09**	**6.63**	**7.69**	**15.58**	**0.09**	**0.09**	**2.18**

Table 2: Ratio Analysis for Maruti

Year	Basic EPS (Rs.)	Book Value/ Share (Rs.)	Earnings Yield	Net Profit Margin (%)	Return on Capital Employed (%)	Asset Turnover Ratio (%)	Current Ratio	Quick Ratio	Inventory Turnover Ratio
2021	140.02	1700.89	0.02	6.01	9.74	100.37	1.15	0.96	23.06
2020	187.06	1603.87	0.04	7.47	14.04	120.87	0.75	0.46	23.52
2019	248.30	1527.86	0.04	8.71	21.60	136.68	0.87	0.64	25.87
2018	255.62	1382.69	0.03	9.68	25.83	134.34	0.51	0.31	25.23
2017	243.32	1206.33	0.04	10.80	26.42	132.74	0.66	0.42	20.86
2016	177.58	989.54	0.05	9.32	17.35	137.19	0.71	0.43	18.37
2015	122.85	784.91	0.03	7.42	15.00	148.93	0.93	0.63	19.11
2014	92.13	694.64	0.05	6.36	12.39	143.11	1.76	1.54	25.62
2013	79.19	615.20	0.06	5.48	11.95	163.04	1.63	1.35	23.68
2012	56.60	525.52	0.04	4.59	10.37	159.56	1.69	1.42	19.81
Average	**160.27**	**1103.15**	**0.04**	**7.58**	**16.47**	**137.68**	**1.07**	**0.82**	**22.51**
SD	**73.43**	**438.43**	**0.01**	**2.01**	**6.16**	**18.22**	**0.47**	**0.47**	**2.78**

Table 3: Ratio Analysis for Bajaj Auto

Year	Basic EPS (Rs.)	Book Value/ Share (Rs.)	Earnings Yield	Net Profit Margin (%)	Return on Capital Employed (%)	Asset Turnover Ratio (%)	Current Ratio	Quick Ratio	Inventory Turnover Ratio
2021	157.50	870.94	0.04	16.41	22.96	87.98	2.51	2.25	18.57
2020	176.30	688.58	0.09	17.04	32.08	120.76	1.55	1.30	28.13
2019	161.60	752.67	0.06	15.45	28.28	110.48	1.45	1.25	31.46
2018	140.60	660.19	0.05	16.16	29.50	105.64	2.25	2.07	33.89
2017	132.30	588.66	0.05	17.58	30.32	104.57	2.92	2.70	29.88
2016	135.80	458.46	0.06	17.39	28.67	137.00	1.70	1.44	31.41
2015	97.20	369.50	0.05	13.01	25.38	138.87	2.13	1.95	26.55
2014	112.10	332.03	0.05	16.09	32.37	136.62	1.19	1.05	31.50
2013	105.20	273.07	0.06	15.21	36.47	160.25	1.50	1.35	31.43
2012	103.80	208.77	0.06	15.38	46.53	176.23	1.12	0.98	28.78
Average	**132.24**	**520.29**	**0.06**	**15.97**	**31.26**	**127.84**	**1.83**	**1.63**	**29.16**
SD	**27.28**	**223.53**	**0.01**	**1.33**	**6.54**	**27.18**	**0.59**	**0.57**	**4.27**

Table 4: Ratio Analysis for Mahindra & Mahindra

Year	Basic EPS (Rs.)	Book Value/ Share (Rs.)	Earnings Yield	Net Profit Margin (%)	Return on Capital Employed (%)	Asset Turnover Ratio (%)	Current Ratio	Quick Ratio	Inventory Turnover Ratio
2021	2.25	288.77	0.00	0.55	12.31	75.58	1.34	1.08	11.39
2020	11.16	288.91	0.04	2.92	13.26	90.07	1.38	1.07	13.38

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2019	40.29	287.09	0.06	8.94	16.86	101.74	1.26	0.99	13.96
2018	36.64	254.58	0.05	8.94	16.95	102.67	1.24	1.03	18.02
2017	30.69	451.22	0.05	8.27	14.28	110.22	1.31	1.02	15.97
2016	53.05	378.36	0.04	7.83	12.49	115.14	1.18	0.91	15.21
2015	56.23	325.58	0.05	8.52	13.85	118.21	1.13	0.86	15.98
2014	63.67	284.44	0.06	9.27	16.68	129.46	1.29	0.97	14.45
2013	56.85	248.32	0.07	8.29	17.36	147.30	1.10	0.80	16.71
2012	48.97	206.63	0.07	9.03	17.39	133.21	1.08	0.76	13.51
Average	**39.98**	**301.39**	**0.05**	**7.26**	**15.14**	**112.36**	**1.23**	**0.95**	**14.86**
SD	**20.31**	**69.72**	**0.02**	**2.99**	**2.10**	**21.22**	**0.10**	**0.11**	**1.92**

5.2 Gray's Index of Comparability:

Gray's comparability index was used to measure the relative impact of IFRS adoption on financial ratios of the Automobile Indian companies under study. The results are presented as below:

Table 5:Gray's Comparability Index

Ratios	Comparability Index for Tata Motors	mparability Indexfor Maru	Comparability Index for Bajaj Auto	Comparability Index for Mahindra & Mahindra
Basic earnings per share	**1.72**	**1.51**	**1.28**	-0.30
Book Value to per share	0.97	**1.51**	**1.54**	**1.08**
Earning Yield	**1.94**	0.65	**1.03**	0.55
Net Profit Margin	**1.64**	**1.22**	**1.07**	0.55
Return on capital employed	**2.66**	**1.31**	0.82	0.94
Asset turnover ratio	**1.07**	0.80	0.59	0.66
Current ratio	**1.14**	0.29	**1.28**	**1.11**
Quick ratio	**1.27**	0.08	**1.29**	**1.17**
Inventory Turnover Ratio	**1.15**	**1.10**	0.95	0.96

The table 5 shows the Gray's Comparability Index calculated for selected variables under the study. Results depict that half of the ratios showing more than 1 index value while half of the ratios below 1. However, those which are showing less than 1 are also nearby 1 index value so company will result in better performance under IFRS periods.

5.3 Paired Sample t-Test Statistic:

It is a statistical method of determining if any differences arising in average financial performance of companies in pre and post IFRS

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adoption. Thet-test is used to test the first null hypothesis. To test the first hypothesis of the study, the variables should be normally distributed. Kolmogorov-Smirnov and Shapiro-Wilks tests were used and the results determined that the variables were normally distributed. Thus, application of any parametric test is possible and can draw robust conclusion. Thus, the researcher has applied parametric tests i.e., paired sample t test to reach to the conclusion.

Table 6:Paired Samples Test Statistics for Tata Motors

Pairs		Mean	Std. Deviation	T - Value	Prob. Value	Result
Pair 1	BEPS - AEPS	4.57400	5.88913	1.737	.157	No Effect
Pair 2	BBVS - ABVS	1.64600	9.93103	.371	.730	No Effect
Pair 3	BEY – AEY	.05800	.11520	1.126	.323	No Effect
Pair 4	BNPM - ANPM	3.34600	3.56697	2.098	.104	No Effect
Pair 5	BROCE - AROCE	-1.58600	8.09536	-.438	.684	No Effect
Pair 6	BATR - AATR	-5.62000	25.64773	-.490	.650	No Effect
Pair 7	BCR - ACR	-.08200	.10986	-1.669	.170	No Effect
Pair 8	BQR - AQR	-.10200	.11819	-1.930	.126	No Effect
Pair 9	BITR - AITR	-1.65800	3.73620	-.992	.377	No Effect

Table 7:Paired Samples Test Statistics for Maruti

Pairs		Mean	Std. Deviation	T - Value	Prob. Value	Result
Pair 1	BEPS - AEPS	-109.19400	95.26017	-2.563	.062	No Effect
Pair 2	BBVS - ABVS	-762.36600	66.15028	-25.770	.000	Effect
Pair 3	BEY - AEY	.01200	.01789	1.500	.208	No Effect
Pair 4	BNPM - ANPM	-1.90000	3.69578	-1.150	.314	No Effect
Pair 5	BROCE - AROCE	-6.11400	10.08724	-1.355	.247	No Effect
Pair 6	BATR - AATR	25.36600	11.29440	5.022	.007	Effect
Pair 7	BCR - ACR	.55600	.66853	1.860	.136	No Effect
Pair 8	BQR - AQR	.51600	.68376	1.687	.167	No Effect
Pair 9	BITR - AITR	-2.39000	2.02800	-2.635	.058	No Effect

Table 8: Paired Samples Test Statistics for Bajaj Auto

Pairs		Mean	Std. Deviation	T - Value	Prob. Value	Result
Pair 1	BEPS - AEPS	-42.84000	22.73231	-4.214	.014	Effect
Pair 2	BBVS - ABVS	-383.84200	39.98346	-21.466	.000	Effect
Pair 3	BEY - AEY	-.00200	.02387	-.187	.861	No Effect
Pair 4	BNPM - ANPM	-1.11200	2.07188	-1.200	.296	No Effect
Pair 5	BROCE - AROCE	5.25600	8.17679	1.437	.224	No Effect
Pair 6	BATR - AATR	43.90800	21.74901	4.514	.011	Effect
Pair 7	BCR - ACR	-.60800	.86808	-1.566	.192	No Effect
Pair 8	BQR - AQR	-.56000	.86997	-1.439	.223	No Effect

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Pair 9	BITR - AITR	1.54800	6.37659	.543	.616	No Effect

Table 9: Paired Samples Test Statistics for Mahindra & Mahindra

Pairs		Mean	Std. Deviation	T - Value	Prob. Value	Result
Pair 1	BEPS - AEPS	31.54800	15.20518	4.639	.010	Effect
Pair 2	BBVS - ABVS	-25.44800	128.45576	-.443	.681	No Effect
Pair 3	BEY - AEY	.01800	.01483	2.714	.053	No Effect
Pair 4	BNPM - ANPM	2.66400	3.53493	1.685	.167	Effect
Pair 5	BROCE - AROCE	.82200	1.31098	1.402	.234	No Effect
Pair 6	BATR - AATR	32.60800	9.07221	8.037	.001	Effect
Pair 7	BCR - ACR	-.15000	.11068	-3.030	.039	Effect
Pair 8	BQR - AQR	-.17800	.09418	-4.226	.013	Effect
Pair 9	BITR - AITR	.62800	2.61669	.537	.620	No Effect

Considering the probability values in Table 6,7,8 & 9, we find that few ratios is statistically significant as their values are lessthan0.05sowe reject the null hypothesis and interpret that there are some significant differences in before and after IFRS adoption average performance of that company. However, for rest of all other variables, probability values are greater than 0.05 so we fail to reject the null and interpret that there are no statistically significant differences in average performance.

6. Conclusion

The study contributes valuable insights into the impact of IFRS adoption on financial statements and ratios in the context of Indian Automobile companies. Gray's Index Results showed Positive effects on financial ratios were observed following the transition to IFRS by Indian companies. Results of t-Test revealed statistically insignificant differences in average performance after IFRS adoption. While certain positive effects were noted, the statistical analysis suggests a mixed picture, and caution is warranted in drawing broad conclusions. It is suggested that users of financial statements are advised to carefully interpret changes in numbers in companies' financial statements. Changes resulting from the shift to IFRS may also be influenced by other economic circumstances. Given the limitations identified, future research could explore a larger sample size for a more robust analysis and investigate additional contextual factors that may influence the impact of IFRS adoption on financial performance.

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