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THE IMPACT OF IFRS ADOPTION ON DEVELOPING COUNTRIES-A CASE STUDY OF INDIA.

C.Latha Research Scholar
Department of GITAM Hyderabad Business School,GITAM (Deemed to be University), Hyderabad Campus. Rudraram, Telangana State, India.
lchiluka@gitam.in
Dr. P. Sridhar Assistant Professor,
Department of GITAM Hyderabad Business School, GITAM (Deemed to beUniversity), Hyderabad Campus.Rudraram,Telangana State, India.
spinnint3@gitam.edu

Abstract:
The globalization of capital markets has increased the demand for globally unified accounting standards. Regulators think that the International Accounting Standards Board's (IASB) International Financial Reporting Standards (IFRS) provide standardized financial statements. Although a great number of empirical researches looked into the effects of IFRS adoption, the breadth of these studies was limited. This article discusses the harmonization of accounting standards and the overall effects of the implementation of the International Financial Reporting Standards (IFRS) on developing countries.
Keywords: Globalization International Financial Reporting Standards (IFRS), Accounting standards, Capital Markets.

1. Introduction

Capital markets are becoming increasingly similar as the world moves toward globalization. Capital market globalization, according to Roussey (1992), Wyatt and Yospe (1993), and Nobes and Parker (1995), has raised overseas investors' demand for information as well as their desire for standardized financial reporting standards. Investors require credible and comparable information in order to invest in overseas markets. Investors have become more demanding of uniform financial reporting standards as a result of globalization. Harmonization, according to Aitken and Wise (1984), Collins (1989), Moulin and Solomon (1989), and Radebaugh and Gray (1993), helps the

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development of global commerce and international financial markets, which in turn improves country economic growth. International Financial Reporting Standards (IFRS) are widely accepted by regulators.) The International Accounting Standards Board (IASB) develops accounting standards that are consistent across countries. Because of the influence of investors' demand, cost minimization in financial reporting, security listing requirements, foreign investments, free trade, and global competition, International Financial Reporting Standards (IFRS) has emerged as the dominant reference for financial reporting in most countries around the world. 2014 (Nulla)

The fundamental benefit of harmonization is that it provides decision-makers and investors all across the world with comparable and reliable statements. Because the financial markets are undergoing three globalizations, there is a clear need to adopt universal accounting standards that will benefit investors, accounting firms, multinational corporations (MNCs), and financial institutions. According to Zeghal and Mhedhbi (2006), the following are the primary variables that influenced the creation of the IFRS: (1) international accounting companies, (2) multinational corporations, (3) foreign investors, and (4) international financial institutions are the four types of international financial institutions.

Several studies looked into the influence of the International Financial Reporting Standards (IFRS) on developing countries. These early studies were limited to voluntary and mandatory adoptions of International Accounting Standards (IAS) on countries from specific regions (Africa (Larson, 1993) and Asia (Woolley, 1998), or from a specific level of economic development (developing countries (Larson & Kenny, 1995)) (Zaidi & Huerta, 2014) and others. The study by Zaidi and Huerta (2014) is the first to look at the influence of IFRS adoption on economic growth rates in adopting nations around the world, regardless of their geographic location or development status.

The major purpose of this research is to review the existing international accounting literature and estimate the impact of the International Financial Reporting Standards (IFRS) on developing countries. The remainder of the paper is organised in the following manner. The second section gives a brief history of the International Financial Reporting Standards (IFRS). The importance of the International Financial Reporting Standards (IFRS) is discussed in Section 3. Section 4 discusses the advantages and disadvantages of adopting the International Financial Reporting Standards (IFRS). The impact of IFRS implementation on emerging nations is discussed in Section 5. The enforcement mechanism is discussed in Section 6. Section 7 examines the existing international accounting literature and summarizes and discusses our findings. The document comes to a close with Section 8.

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1.1 Brief History.The International Accounting Standards Board (IASB), an independent standard-setting body, has produced a set of high-quality, transparent, and comparable global accounting standards. IASB uses an international consultation method to produce these standards, which entails enlisting interested persons and organisations from all over the world in the development of accounting regulations. Since 2001, the IASB has been working on these standards. Between 1973 and 2000, the International Accounting Standards Committee (IASC) was in charge of drafting accounting regulations before the IASB was formed. International Accounting Standards (IAS) were produced by the IASC (IAS). 2 Since 2001, approximately 100 nations, including all European Union (EU) member countries, have either required or approved the use of International Financial Reporting Standards (IFRS).. Many non-adoptee countries are seeking convergence, a process of narrowing the differences between the country's accounting standards and IFRS. Some of them are pursuing IFRS adoption

1.2 The Importance of IFRS

According to Lee (1987), the development of efficient capital markets necessitates the creation of a well-developed accounting structure. Efficient financial markets are the bedrock of a country's economic development (Lee, 1987). Accounting infrastructure, according to Lee (1987) and Wallace (1990), is linked to a country's economic progress. A vibrant market economy and an efficient public sector are built on reliable financial data (Birău, Birău, & Trivedi, 2014). According to Larson and Kenny (1996), the International Financial Reporting Standards (IFRS) provide an accounting infrastructure that aids developing countries in fostering economic progress by providing transparent accounting standards across borders. However, a lack of accounting infrastructure causes market emaciation, which stifles a country's economic growth (Lee, 1987).). The adoption of well-developed accounting standards can help a country satisfy its unique accounting requirements. The International Financial Reporting Standards (IFRS) are a set of accounting standards and procedures that help adoptees improve the quality and trustworthiness of accounting data. According to existing research, IFRS improve financial reporting disclosure and transparency. Furthermore, IFRS not only improves financial statement comparability and credibility, but also reduces uncertainty and information asymmetry. Reduced uncertainty and information asymmetry draws more investors to the capital market, improving market liquidity and efficiency. Countries' economic growth is aided by efficient capital markets (Lee 1987). As a result, IFRS adoption boosts economic development.

1.3 The benefits of IFRS on developing countries:

The advantages and disadvantages of adopting IFRS are discussed in this section. Benefits Proponents of the International Financial Reporting Standards (IFRS) argue that a single

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set of international standards, such as IFRS, promotes economic development. The International Federation of Accountants (IFAC) has completed a global poll that included accounting leaders from around the world. The goal of the poll was to find out how leaders feel about IFRS and how it affects economic growth. Eighty-nine percent (143 leaders) of the respondents from 91 nations said the adoption of IFRS was "extremely important" or "important" for their countries' economic progress (The CPA Letter, 2008). Ball (2006) and Choi and Meek (2007) both claim that (2005),IFRS has the ability to improve market liquidity, competitiveness, and efficiency by facilitating cross-border comparisons, increasing reporting transparency, lowering information costs, and reducing information asymmetry (Nulla, 2014). Furthermore, IFRS provide consistent and comparable financial statements, which aid overseas investors and users of financial accounts in making decisions. The adoption of consistent standards such as the International Financial Reporting Standards (IFRS) removes informational externalities that come from a lack of comparability (Ball, 2006). Foreign investors require accurate, fast, reliable, and comparable information in order to make investment decisions.According to Ball (2006), IFRS reduce the cost of financial statement information processing for investors by not only eliminating cross-border variances in accounting standards and standardised reporting formats, but also by delivering comparable, accurate, comprehensive, and timely information. Cross-border discrepancies in accounting rules are being reduced, which benefits investors in cross-border acquisitions and divestitures. Jermakowicz and Gornik-Tomaszewski (2006) argue that by decreasing cross-border accounting disparities,
The adoption of the International Financial Reporting Standards (IFRS) eliminates barriers to cross-border business. According to Tyrrall, Woodward, and Rakhimbekova (2007), the majority of their study's interviewees felt that access to international capital is the most significant benefit of IFRS adoption. Furthermore, the International Financial Reporting Standards (IFRS) promise enhanced financial statement transparency. Increased financial statement openness lowers "agency costs between management and shareholders" while also improving company governance (Ball, 2006). Investors benefit from lower agency costs because managers will operate in their best interests (Ball, 2006). Jermakowicz (2004) performed two surveys in Belgium, and Jermakowicz and Gornik (2004) did two surveys in the United States.-According to Tomaszewski (2006), the majority of respondents in the European Union believe that IFRS improve financial statement comparability and transparency. Improved financial statement quality, comparability, and transparency result in better investment decisions, cheaper preparation costs, lower cost of capital, and enhanced market efficiency. Choi and Meek (2005) and Ball (2006) believe that the International Financial Reporting Standards (IFRS) have the potential to improve cross-border comparability, increase reporting transparency, lower information costs, reduce information asymmetry, and thus increase market liquidity, competition, and

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efficiency. Furthermore, according to Ball (2006), the IFRS's fair value orientation could introduce volatility to financial statements in the form of both positive and bad information (Nulla, 2014).).The International Financial Reporting Standards (IFRS) are part of the accounting infrastructure that aids countries in promoting economic progress (Larson & Kenny, 1996). According to researchers, IFRS adoption improves financial statement transparency and disclosure (Leuz&Verrechia, 2000; Ball, 2006; Lambert, Leuz, &Verrechia, 2007; Barth, Landsman, & Lang, 2008). Improved transparency and disclosure should lower uncertainty, agency costs, information asymmetry, capital costs, and estimation risk while improving credibility, comparability, accuracy, information quality, accounting quality, corporate governance, market liquidity, and capital market efficiency (Leuz& Verrecchia, 2000; Jermakowicz, 2004; Ball, 2006; Jermakowicz & Gornik-Tomaszewski, 2006; Lambert et al., 2007; Armstrong, Barth, Jagolinzer, & Riedl, 2008; Barth et al., 2008; Zaidi & Huerta 2014). There are no local accounting standards or standard-setting agencies in the majority of developing countries. Peasnell, Peasnell, Peasnell (1993)believes that creating accounting rules from scratch is exceedingly expensive, and that most underdeveloped countries lack financial means. As a result, adopting IFRS will be a cost-cutting option for poorer countries. Time reductions, cost savings, and greater reliability of financial statements of publicly traded corporations are all important benefits of IFRS implementation (Mir & Rahaman, 2005). According to Larson and Kenny (1996), the International Financial Reporting Standards (IFRS) provide accounting infrastructure that can aid in the economic growth of poor countries.

1.4 The Drawbacks of IFRS on developing countries:

Opponents of the International Financial Reporting Standards contend that the standards not only neglect culture and country diversity, but also categorise reporting at the lowest possible level (Samuels & Piper, 1985). Opponents argue that the adoption of the International Financial Reporting Standards (IFRS) has a negative impact on developing countries' economic development due to their unique accounting needs and differences in their cultural, political, social, and economic environments from developed countries (Hove, 1989; Briston, 1990). Cultural and socioeconomic disparities between developing and established countries, according to survey respondents, render IFRS implementation undesirable for poor countries (Mir & Rahaman, 2005). Furthermore, according to Jermakowicz (2004) and Jermakowicz and Gornik-Tomaszewski (2006), IFRS is a complex set of standards that is difficult to execute and that migrating from local standards to IFRS is a time-consuming procedure..One of the most difficult aspects of implementing IFRS is the complexity of its standards, which necessitates a significant amount of effort (Jermakowicz & Gornik-Tomaszewski, 2006). According to Larson and Street (2004), one

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of the primary hurdles to IFRS convergence is the complexity of standards. Furthermore, there are two key roadblocks to IFRS convergence: (1) a lack of implementation guidelines and (2) differing interpretations (Jermakowicz, 2004; Jermakowicz & Gornik-Tomaszewski, 2006). The key problems of IFRS adoption/conversion, according to Jermakowicz and Gornik-Tomaszewski (2006), are a lack of education, training, and knowledge of IFRS. Learning more about such a complicated set of criteria necessitates ongoing education. 8 Jermakowicz is a Polish writer who lives in New York City (2004)(2006) (Jermakowicz & Gornik-Tomaszewski). Furthermore, the transition to fair value accounting has increased the volatility of accounting earnings figures (Nulla, 2014). According to the poll, the use of fair values is the most difficult aspect of IFRS implementation since it may increase the volatility in asset and earnings reported values (Jermakowicz, 2004). Furthermore, the survey findings suggest that the International Financial Reporting Standards (IFRS) lack implementation guidelines and are not only complex but also expensive to adopt (Jermakowicz, 2004). Furthermore, most respondents in Tyrrall et al. (2007)'s study felt that the most significant disadvantage of IFRS adoption is the difficulties in transitioning from a local accounting system to IFRS. According to Mir and Rahaman (2005), IFRS are not the answer to developing countries' accounting challenges. The International Financial Reporting Standards (IFRS) are not a "one-size-fits-all" solution.. Effective implementation of IFRS in developing countries requires modification of standards or corporate laws (Mir & Rahaman, 2005)

1.5 The Impact of IFRS on Developing Countries

In order to make the best decisions, decision-makers and investors want accurate data. Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, the United Kingdom, and the United States are among the developed countries (Birău et al., 2014). Developing countries lack dependable information sources. According to Samuels and Piper (1985), appropriate and reliable accounting information is critical for developing countries' economic success. Accounting systems that are inappropriate or insufficient might stifle economic growth (Lee, 1987).In both emerging and established countries, financial statements are an important source of information for capital market participants (Zeghal & Mhedhbi, 2006). Furthermore, according to Belkaoui (1988), the International Financial Reporting Standards (IFRS) support economic progress. The flow of foreign investment into a developing country will rise if the government adopts IFRS, which is arguably more dependable than the country's domestic standards or GAAP, because international investors will have both comparable and credible information. Economic growth will be

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aided by an increase in foreign investment. Investors must evaluate other variables when making investment decisions, as simply adopting IFRS does not boost the dependability of financial reporting. According to Larson and Kenny (1995), simply adopting IFRS does not result in increased equity market development or economic growth. In this sense, enforcement plays a critical role. The enforcement of standards is just as important as the standards themselves (La Porta, Lopez De-Silanes, Schleifer, & Vishny, 1997). With the introduction of IFRS, the financial statements' trustworthiness may be questioned if the enforcement mechanism is not in place. When enforcement measures are in place, accounting statements can be harmonised. Accounting harmonisation benefits developing countries because it delivers not just higher-quality standards but also a higher-quality accounting framework. Furthermore, emerging countries require foreign investment in order to expand their economies. Foreign investors require trustworthy information to make investment decisions, which IFRS delivers.Therefore, a large number of developing countries have already adoptedIFRS. Because they lack their own national standard-setting bodies, the majority of countries have embraced IFRS (Chamisa, 2000). In developing countries, the lack of national standard-setting agencies is owing to a lack of financial and personnel resources, as well as experience in defining their own standards (Chamisa, 2000). Ball (2006) also claims that creating accounting standards is expensive. This is a long, difficult, and exhausting process.

2 Literature Review

Academic scholars, accounting professionals, and regulatory agencies have been debating whether or not IFRS adoption has a positive impact on a country's economic growth. Several studies examine the arguments for and against the adoption of the International Financial Reporting Standards (IFRS) and its impact on the economic growth of adopting nations; nonetheless, empirical evidence to support a specific point of view is sparse. The majority of research in this field is of a narrow nature. Some studies, for example, focused solely on developing countries, while others focused on certain geographical regions, such as Africa and Asia (Zaidi & Huerta, 2014). Because these research focus on a specific region or group of countries, generalisation of results is hampered.

Economic Development Larson (1993) undertakes a cross-sectional empirical study in African countries to see if countries that implement IFRS have different economic development rates than countries that do not. Despite the fact that several studies have been conducted in the past and many arguments have been made "both for higher and lower economic growth to be associated with" the adoption of IFRS, no empirical research has been done to test whether IFRS adoption has a positive or negative impact on a country's economic growth (Larson, 1993, p.39). Larson (1993) fills this gap in the literature by empirically testing assertions previously made in descriptive works that

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lacked evidence.The findings show that nations that adapt IFRS with changes to suit local environmental constraints have higher economic growth than countries that either don't adapt them at all or don't adjust them at all. Larson and Kenny (1995) perform an empirical study in 27 developing countries with equities markets to see how the implementation of the International Financial Reporting Standards (IFRS) affects equity market development and economic growth. Larson and Kenny (1995) extend Larson's (1993) previous research by looking at the impact of IFRS adoption on equities market development as well as economic growth. The authors discover no significant link between IFRS adoption and the development of equities markets or economic growth in developing nations. Their findings imply that, as compared to non-adoptees, adoptees are more likely to be successful.Nations with weaker equity market development and economic growth include 13 IFRS compliant countries. Larson and Kenny (1995) go on to say that drawing any conclusions based on these findings would be premature without more research into the other elements that could influence a country's equity market development and economic growth. Similarly, Samuels and Piper (1985) and Hove (1989) find no benefits from the implementation of the International Financial Reporting Standards in developing nations. Woolley (1998) explores the variations in economic development rates between IFRS adoptee and non-adoptee Asian nations, according to Zeghal and Mhedhbi (2006). Woolley (1998), on the other hand, finds no substantial differences in economic growth rates between adoptee and non-adoptee countries (Cited in Zeghal & Mhedhbi, 2006).. The results from Woolley (1998) cannot be generalized since they are based on a study conducted in a particular continent.

3 Conclusion of the Study:

Investors' need for globally comparable financial statements has grown as capital markets have become more globalised. Investors require credible and comparable information in order to invest in overseas markets. Financial statement harmonisation is beneficial to a country's economic progress. The purpose of harmonisation is to offer decision-makers and investors around the world with comparable and reliable statements. Regulators think that the International Accounting Standards Board's (IASB) International Financial Reporting Standards (IFRS) provide accounting standard harmonisation. A significant number of peopleWith a limited scope, research look into the effects of IFRS adoption. Some studies were restricted to specific geographic regions, such as Asia, Africa, or Europe; others were restricted to specific groups of countries, such as developing or industrialised nations; and still others were restricted to IFRS adopting countries, whether voluntary or required. This paper analyses the existing literature and considers the effects of IFRS implementation over the world, regardless of geographic region or group of countries.

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Furthermore, the majority of studies that look at the influence of IFRS adoption on a country's economic growth overlook other issues like IFRS enforcement and compliance, both of which can have a significant impact on a country's economic growth. Level of enforcement is used as a moderator variable by Zaidi and Huerta (2014); nevertheless, level of enforcement is the broad level of law and enforcement in a country as measured by rule of law. It does not assess the country's degree of IFRS compliance.At this moment, there is no compliance index available. As a result, once IFRS is available, future studies may incorporate level of compliance as a moderator variable. Other elements also play an important part in a country's economic development. Corporate governance, economic state, availability of a capital market, labour composition, and a country's tax status are only a few of these aspects. Some or all of the missing variables could be used as control variables in future studies.

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