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Preparedness For Ifrs In India: Cfos Perspective

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ABSTRACT

IFRSs are now gaining momentum in the form of leading global financial reporting principles for accounting information over the world. A wider acceptance of IFRSs is visible in India too. Role of Chief Financial Officers is very critical for IFRS implementation. The purpose of present study is to measure the level of preparedness among Chief Financial Officers of information Technology sector regarding the IFRSs implementation in India. The study employs convenience sampling technique to collect data from 100 CFOs by administering a structured questionnaire. Exploratory Factors analysis is used to define the factors related to the variables of preparedness. The results show that Organizational support plan is the most prominent factor followed by organizational resource plan. Besides organizational level preparedness, three factors named accounting knowledge and awareness, experience and readiness; and training and special courses are also found important factors for preparing for IFRS. An organization should follow these factors at chief financial officer level preparedness.

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Keywords: IFRSs, Chief Financial Officers, Preparedness, Information Technology Sector

INTRODUCTION

The international accounting practices based studies are gaining attraction to meet the demands of the economic clients for financial information and; to facilitate international business activities smoothly from last few years. Understanding the need for single accounting model regarding international accounting derive the concept of IFRS. The thought of international accounting convergence reflects its capability to minimize negatives effects resulting from diversity of accounting practices in various countries (Cordeiro et al. 2007). A wider acceptance of IFRSs is visible in more than hundred countries that have identified the requirement of the policy or implemented IFRSs in different ways. To have an access to investment across the national boundaries, a country recognized as non IFRSs compliant country may gain an additional risk (Talati, 2007). The IFRSs introduction to accounting world is going to change the accounting practices and will effects the working of listed companies in many countries surely. Fostering the environment to be IFRS friendly is viewed as historical regulatory change in accounting world to new level of accounting (Daske et al. 2008). For a smooth IFRSs implementation procedure, each interested party will have to form a strong team network and work together with coordination among law makers, regulators, auditors and accountants (Jain, 2011). Accounting thought for the adoption of IFRS for a nation does not include just the discussion on issues, differences, impacts and challenges only. The study by Shortridge & Smith (2009) supported the concept of preparedness of its professionals is critical to the adopting the change.

IFRS is a new concept in accounting world and new for India too. Success of a project launching depends upon the proper planning. Good and timely planning removes the many barriers and of course threats seen in the environment. Same with IFRS implementation project, there is need of good planning and subsequent planning review to adjust the changes in the economic environment and IFRS world. The study is relevant to the research from the preparedness perspective for a particular industry. For the preparedness, it is needed to check the readiness of CFOs being implementer of new dimension in accounting world i.e. IFRS.

HISTORICAL REVIEW

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Accounting thought for the adoption of IFRS for a nation does not include just the discussion on issues, differences, impacts and challenges only. **Ghosh (2010)** examined that IFRS is going to bring a lot of changes in accounting world. The preparedness in accounting is needed to check the readiness of accounting professionals and financial professionals having the knowledge to evolution of new dimension in accounting world of IFRS is discussed by **Pickerin et al. (2008**). A study by **Shortridge & Smith (2009)** supported the concept of preparedness of its professionals was critical to the adopting the change. **Smith (2009)** investigated how the use of IFRS had dramatically increased worldwide in recent years. The survey conducted by author stated, "Top corporate accounting officers are highly favorable for the acceptance of IFRS for financial reporting by all companies in all countries" and with that the IFRS have been perceived as difficult and challenging by practicing accounting professionals. Local, economic, cultural, social, political, institutional and several other factors function as barriers in the convergence of accounting standards (**Pajunen, 2010)**. Moreover**,** the timing of the adoption in the form of preparedness is important for preparation and compliance level **Kaplan and Beier (2007).** The timing of adoption IFRS impacts its success. **Stent (2011)** found that there were significant differences exist among early adopter and late adopter based on the nature of the disclosure. Also, earlier adopters attach higher importance to IFRS rather than late adopter. Level of importance is affected by mostly consequences of IFRS and perception of manageability of IFRS adoption.

From the last few decades, many studies have been undertaken by researchers highlighting the need of IFRS for the whole world under a single accounting system. Most of the literature found belong to the countries adopted the IFRSs already. Besides, research papers stating the importance of IFRS preparedness that strike in the mind set the main aim of the carrying research work.

OBJECTIVE OF THE STUDY

The main objective of the study is to measure the degree of preparedness among CFOs of IT sector regarding the IFRSs implementation. It focuses on the preparation efforts by CFOs at individual and organizational level for real time execution of IFRS.

RESEARCH METHODOLOGY

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To facilitate the study in a systematic manner, research methodology is important to decide first. Research design is exploratory cum descriptive type in nature. It is exploratory in nature because it is intended to explore some new variables representing the preparedness of CFOs in IT sector in India. It is descriptive too as it describes the level of preparedness among CFOs.

Population of the study is all the IT sector companies listed on BSE and NSE. Sample is constituted of CFOs representing the information technology sector. Sample is targeted to the companies having net worth more than Rs. 500cr being first phase implementers. Convenient sampling technique is used to collect the data. A structured questionnaire has been mailed with personal links to selected respondents. Questionnaire has been divided into two sections. First section is related to demographic profile of the chief financial officers. Second section includes 18 statements to judge the preparedness at individual and organizational level. The preparedness has been measured on five point Likert scale representing interval data with the nominations as Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD). The data related to demographics is nominal and ordinal in nature used to define the characteristics of the respondents.

DATA COLLECTION

With the CFO's, financial controllers working under CFOs are included to get the realistic data on IFRSs. The response rate for the CFOs is 54% with the targeted population receiving 108 questionnaire filled up. Out of which 100 questionnaire are found perfect for research. Pilot survey is conducted to promote the efficiency and check the validity of the data. Content is found valid with the understandability for the population. For the reliability of the data, Cronbach alpha value is judged. The alpha value of .738 for 18 statements is good indicator for internal consistency of the scale. Statistical tools like mean and standard deviation are used to check the preparedness among CFOs.

ANALYSIS AND INTERPRETATIONS

This section represents the descriptive analysis of the variables used in this study. All the variables are presented in tabular format explained through figures and percentages.

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Demographic Characteristics of the Respondents

Table 1
Demographic profile of CFOs

Demographic variables	Frequency N=100	Percent (%)
Gender		
Male	67	67
Female	33	33
Age		
20-30	17	17
30-40	31	31
40-50	29	29
Above 50	23	23
Experience		
0-5	19	19
5-10	42	42
10-15	23	23
Above 15	16	16
Category		
BSE	31	31
NSE	22	22
Both	47	47
Total	100	100

Source: ***Sample survey***

The above Table depicts about the total numbers of respondents according to their gender. It shows that out of the total 100 respondents; 67 percent or 67 are male respondents and remaining 33 percent are female respondents considered as the sample for the research. Considering the age of respondents, it has been noticed that the majority of the Chief Financial Officers (31 percent) are from the age group of 30-40. It is followed by the age group of 40-50 which are 29 percent. The age group of above 50 carries 23 percent of the total CFOs. The minimum number of respondents belongs to the age group 20-30 with a number of 17 out of total respondents. Reviewing at the data for years of experience, the survey results have shown that the majority of the respondents, 42 percent of the Chief Financial Officers are having a work experience of 5-10 years, followed by 23 percent of respondents having 10-15 years of experience and the rest of the 19 and 16 percent of the respondents are having an experience of 0-5 years and above 15 years respectively. As exhibit in Table, category wise classification reveals that the highest percentages (47) of the respondents are working in the firms registered in NSE and BSE both. It is followed

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by 31 percent of the respondents belonging to BSE listed firms and lastly, 22 percentages of the respondents are serving in NSE listed firms only.

Degree of preparedness among Chief Financial Officers

To measure degree of preparedness among Chief Financial Officers, structured questionnaire is used to collect data on five point likert scale. The respondents have provided their responses for preparedness against a list of 18 variables. To check the level of preparedness; means and standard deviations are used to explain.

Table 2

Preparedness among Chief Financial Officers

Sr. No.	Statements	N	Mean ($\bar{x}$)	SD (σ)
1	Are you familiar with IFRS?	100	3.70	.958
2	Did you attend special Course classes for IFRS when IFRS was introduced?	100	3.41	1.163
3	Did you go through formal training or seminar when IFRS was introduced?	100	3.56	1.166
4	Have you any experience of working with IFRS?	100	2.60	1.163
5	Have you gained satisfactory knowledge about IFRS?	100	3.65	.9142
6	Are your board members in positive favor towards IFRS Implementation?	100	3.30	1.058
7	Are your Staffs familiar with IFRS?	100	3.25	1.183
8	Have you evaluated accounting policy changes and consequences changes?	100	3.52	1.122
9	Have you studied Internal financial reporting system changes?	100	3.40	1.024
10	Can this company's IT systems handle the transition to the lFRS?	100	2.70	1.235
11	Is there Special section/department for IFRS in your organization?	100	2.75	1.266
12	Has continuous IFRS training plan?	100	3.55	1.076
13	Have you a development plan?	100	3.15	1.200
14	Have you communicated change about IFRS to shareholders?	100	3.40	1.024
15	Have you allocated Budget for IFRS?	100	2.85	1.200
16	Have your organization set up an IFRS conversion project team?	100	2.90	1.141
17	Will IFRS need additional resources, as compared to earlier Indian GAAP, on regular basis?	100	2.70	1.105
18	Are you ready to work with IFRS?	100	3.55	1.073

Source: Primary survey

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Table 2 depicts the mean values of the statements representing the degree of preparedness. The respondents have different opinions regarding preparedness for IFRS. Mean scores range from 2.40 to 3.70 depicting results in three levels of disagreement, undecided and agreement. The respondents are showing mean value more than 3 for the 12 statements related to familiarity with IFRS (3.70), gained satisfactory knowledge (3.65), attended formal training (3.56), developed a training plan (3.55), ready to work with IFRS (3.55), evaluated accounting policy changes (3.52), attended special courses classes (3.41), studied changes Internal financial reporting system (3.40), communicated changes about IFRS to shareholders (3.40), positive attitude of board members (3.30), staff familiarity with IFRS (3.25) and having a development plan (3.15). Hence, the findings support positive responses by chief financial officers for these preparedness statements with mean scores lying near Agree on five point likert scale. Average scores lying near Agreement level indicate the need of extra efforts for planned convergence. This arise the need of more preparations by CFOs for IFRS adaption.

For the rest of 6 statements, mean scores are less than 3 showing disagreement for preparedness variables. These includes having set up for project team (2.90), allocated budget (2.85), having special department for IFRS (2.75), can their current IT system handle transition (2.70), need for additional resources (2.75), having experience for working with IFRS (2.60). The statements conclude for disagreement on administrative level efforts having no experience of dealing IFRS by most of the respondents.

Factor analysis is used to determine the factors for preparedness for CFOs. To check the validity of factor analysis KMO test and Bartlett's Test of Sphericity are judged after having sufficient number of responses. Factor Analysis results are presented ahead after applying Exploratory Factors Analysis method.

Table 3
The results KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.684
Bartlett's Test of	Approx. Chi-Square	2237.980

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Sphericity	Df	153
	Sig.	.000

The KMO value of .684 686 indicates that the sample size is adequate according to the number of statements and Bartlett's test of Sphericity is significant with the value .000. It shows that there is correlation among the items of preparedness.

Table 4
Principal Component Analysis for preparedness statements

Component	Initial Eigen values			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.776	32.090	32.090	4.626	25.703	25.703
2	4.379	24.327	56.417	4.310	23.944	49.647
3	2.218	12.324	68.741	2.593	14.407	64.053
4	1.623	9.014	77.755	2.087	11.595	75.649
5	1.185	6.581	84.336	1.564	8.687	84.336
6	.886	4.925	89.261			
7	.684	3.797	93.058			
8	.459	2.552	95.610			
9	.286	1.591	97.201			
10	.177	.985	98.187			
11	.123	.682	98.869			
12	.085	.475	99.344			
13	.057	.314	99.658			
14	.043	.237	99.895			
15	.013	.072	99.967			
16	.005	.028	99.995			
17	.001	.003	99.998			
18	.000	.002	100.000			

Extraction Method: Principal Component Analysis

As it can be seen from the above table, five factors are having Eigen value more than one and explained 84.33 percent of the variance.

Table 5
Extracted Factors of preparedness

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Factors	Statements	Loading	Eigen values	Mean ($\bar{x}$)	SD (σ)	Communalities
Organizational Support Plan	Are your board members in positive favor towards IFRS implementation?	.914	5.776	3.30	1.058	.891
	Have you studied Internal financial reporting system changes?	.908		3.40	1.024	.865
	Has continuous IFRS training plan	.900		3.55	1.076	.935
	Have you evaluated accounting policy changes and consequences changes?	.859		3.52	1.122	.813
	Have you a development plan	.857		3.15	1.200	.762
	Have you Communicated change about IFRS to shareholders	.748		3.40	1.024	.751
Organizational Resource Plan	Can this company's IT systems handle the transition to the IFRS?	.919	4.379	2.70	1.235	.924
	Will IFRS need additional resources, as compared to earlier Indian GAAP, on regular basis?	.904		2.70	1.105	.883
	Have you allocated Budget for IFRS	.885		2.85	1.200	.885
	Have your organization set up an IFRS conversion project team?	.859		2.90	1.141	.829
	Is there Special section/department for IFRS in your organization?	.839		2.75	1.266	.836
Basic Knowledge & Awareness	Are you familiar with IFRS?	.904	2.218	3.70	.958	.908
	Have you gained satisfactory knowledge about IFRS?	.798		3.65	.9142	.832
	Are your Staffs familiar with IFRS?	.786		3.25	1.183	.872
Experience & Readiness	Are you ready to work with IFRS?	.915	1.623	3.55	1.073	.842
	Have you any experience of working with IFRS?	.891		2.60	1.163	.870
Special course & Training	Did you go through formal training or seminar when IFRS was introduced?	.895	1.185	3.56	1.166	.853
	Did you attend special Course classes for IFRS when IFRS was introduced?	.689		3.41	1.163	.632

It has been observed from the Table that five factors can be extracted depicting the included variables. In the rotated factor matrix, first factor comprise of six variables having Eigen value of 5.776 and 25.703% of the variance. First factor consists of six variables asking support from board members in positive favor towards IFRS implementation (.914), analyzing internal financial reporting system changes (.908), seeking continuous IFRS training plan (.900). Besides,

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evaluation of accounting policy changes and their consequences changes (.859), having development plan for IFRS (.857) and change communication to shareholders about IFRS (.748) are supporting variables for preparing the IFRS. All these variables collectively lead to organizational support for IFRS. So, it is labeled as **"Organizational Support Plan"** for IFRS**.**

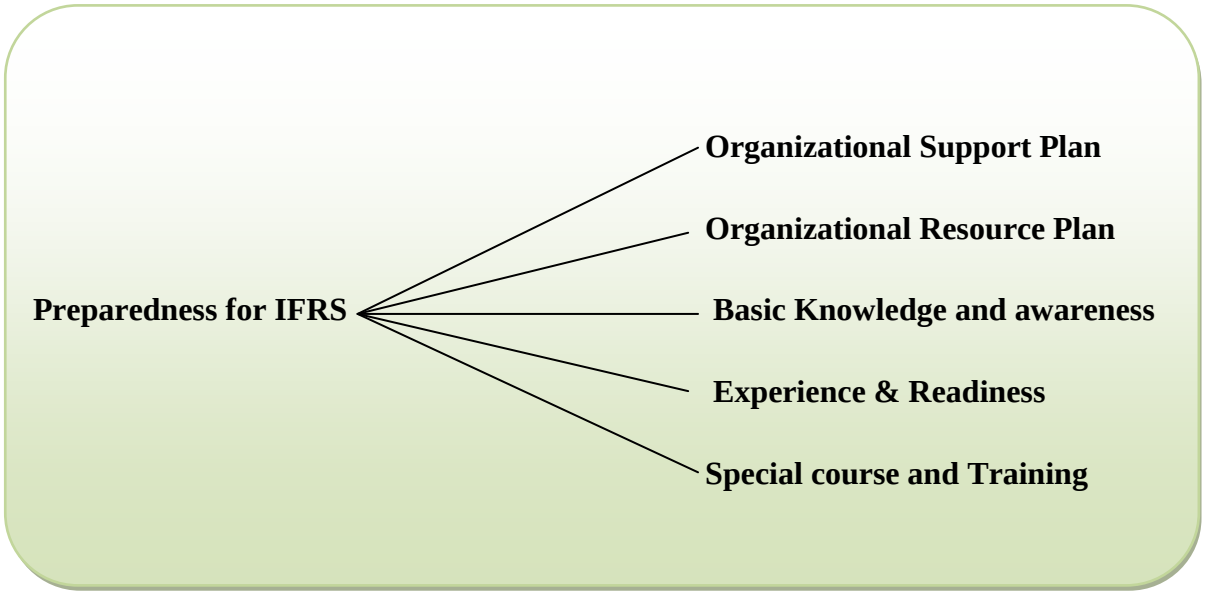
The second factor is a combination of the five variables with an Eigen value 4.379 and covers 23.944 percent of the variance. First variable focuses on current IT system suitable for IFRS (.919), second for need of additional resources (.904), third for budget allocation (.885). Similarly, fourth variable is also related to human resources requirement for IFRS by having a set up for project team (.859). Fifth variable is related to separate section or department for IFRS (.839). All these variables leading to a factor related to organizational resources. So, it is labeled as **"Organizational Resource Plan"** for IFRS.

The third factor identified three variables with an Eigen value of 2.218 and 14.407 % of the variance. The first variable expresses the familiarity of CFOs with IFRS depicting awareness about the IFRSs implementation (.904). The second variable unveils the knowledge level of CFOs required to deal with IFRS (.798). Third variable indicates staff familiarity with IFRS to provide easily acceptance and execution to IFRS in the companies (.786). After pooling all these variables simultaneously, they are named as **"Basic Knowledge and awareness"** for IFRS.

The fourth factor is combination of two variables with an Eigen value of 1.623 and 11.595% of the variance. First variable is related to readiness of CFOs (.915) and second variable judges their experience of working with IFRS (.891). Comprising both it is labeled as **"Experience & Readiness"** for IFRS.

The fifth and last factor is made of two variables with an Eigen value of 1.185 and 8.687% of the variance. First variable is related to attending formal training or seminar when IFRS was introduced (.895) and second variable is targeted to attend special Course classes for IFRS (.689)". Collectively, it is named as **"Special course and Training"** for IFRS. Outcome factors can be presented as a chart for easiness.

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CONCLUSION AND RECOMMANDATIONS

The preparedness of CFOs is important to judge the full mode implementation of IFRS in India. Timing of the adoption in the form of preparedness is important for preparation and compliance level**.** Of course, the CFOs are ready to adopt the IFRS. Awareness level with basic knowledge for accounting is high. They have opted for training and special classes at average. One major constraint in preparation for IFRS is lack of experience working with IFRS. Doubtful minds need more clarity of the concepts related to IFRS. Also, resource management and IFRS support plans are to be considered more accurately to get ready for IFRS implementation in real. Most relevant factors concluded in the form of preparedness for IFRS will help CFOs in the preparation of IFRS. Organizations can follow Organizational Support Plan, Organizational Resource Plan, Experience & Readiness, Basic Knowledge and Awareness, and Special course and Training to prepare for IFRS. Government can support the IFRS by raising funds for Special training of CFOs including chartered accountants too to bring first level acceptance among all stakeholders.

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