



A Comparative study on impact of reporting about financial performance of tata motors as per AS and Ind AS

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Abstract

New product launches in recent time are more aligned with customer requirement specifically in the Automobile Industry. The industry is booming after removing the restrictions. The automobile industry is largest consumer of steel, aluminium, zinc alloys, rubber and plastic. Automobile industry becomes the back bone to the economy which employs 13 million individuals. Best performer we can say at Global level is Tata Motors which is one of the Multinational Company who are performance oriented. Honesty reveals from every aspects by this company so for the study of impact measurement due to changing reporting requirement this is best company for research as compare to other automobile company. 2016 was the year when company need to change the reporting format so here in this study we had cover total ten years of period. Five year before the implementation of Ind AS and five years after the implementation of Ind AS considers for this study. Ind AS is required for the standardization as well as for harmonization of accounting policies. Convergence toward IFRS through the implementation of Ind AS is the best way to reach at global level during this competitive era. Time will prove that Ind AS is the qualitative way of Accounting. Ind AS Framework is relevant, honest and faithful representation of financial statements. The qualitative characteristics are expected to enhance the value of financial statements. Profitability will show the impact of changes in reporting requirement from AS to Ind AS other thing might not much affected in this scenario.

Keywords: Automobile industry, IFRS, Ind AS, AS, financial performance

Introduction

Automobile industry is one of the largest industries in the world. Indian automobile industry followed western trends in initial stages. New product launches in recent time are more aligned with customer requirement. One of the giant among the automobile industry is TATA Motors. TATA Motors is a MNC having headquarter at Mumbai. This company operating almost in all the segment. Last reported revenue of TATA Motors are Rs. 301,144 crore and working employee under this company are 50,837 as per latest report. TATA Motors has following subsidiary company jaguar land rover, Tata Hispano, Tata Hitachi, Tata construction machinery, passenger electric etc. due to availability in multinational countries the reporting requirement also need to be taken care. As per requirement of law Tata Motors limited already follows Ind AS as reporting requirement of MCA since 2016. Initially company need to prepared Financial Statement as per AS as well as as per Ind AS. So as per guideline one can full fill all the requirement. Here briefing also provided with regard to reporting requirement are changes from time to time. Wather this changes are impacted to any manner to company is the most important question. So here we had try to clarify through some of the measure that how much actually impacted the changes in reporting requirement.

Meaning of Certain Terminology

GAAP

GAAP Stand to generally accepted accounting principles which is common set of accepted accounting principles, standards and procedures that business reporting must follow in the preparation and presentation of financial statement.

Accounting Principles

Accounting principles are a body of doctrines commonly associated with the theory and procedures of accounting. Accounting principles should be based on real assumptions, followed consistently, Reflect future predictions, Informational to users.

Accounting Standard

Accounting standards are written documents, policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, treatment, presentation and disclosure of accounting transactions in the financial statements.

IFRS

International Financial Reporting Standards is a set of accounting standards developed by an Independent, not for profit organization called the International Accounting Standards Board.

Ind AS

Ind AS stand to INDIAN ACCOUNTING STANDARDS are IFRS converged standard issued by the central government of India under the supervision of accounting standard Board (ASB) of ICAI and in consultation of NFRA.

Review of Literature

(Dr. Ramesha V; 2016) ^[1] has attained study on convergence of Ind AS with IFRS, in that particular study found that changes from the one accounting system to another accounting system is not easy task. It require lot of time to use through of that system which are newly introduce. Other resources also need to consume from that part. Research broadly categorise toward IFRS implementation and challenges and systematic steps to implement IND AS.

(Sharma & Gupta; 2018) conducted research for conference research paper on challenges in implementation of Ind AS in India and identified challenges in implementation of Ind AS in India also has put some solution to face the same challenges. Broadly, author has given some basic solution to face such challenges on reporting issue. There are major challenges like fair value measurement, conversion cost, and complexity in understanding various term etc. for such challenges researcher come with the solution training programme and seminar and various conference or one can go for expert talk. Author has also site the reference of MCA and ICAI specially.

(Kaur, Balwindar & Madhavbhattacharya; 2019) ^[3], has conducted research on “Comparative analysis of GAAP, IFRS and Ind AS” in that study provided comparison of Indian GAAP, IFRS and Ind AS also mention that there is no big challenges in adoption of IFRS and provide detail about IFRS that IFRS is nothing but a accounting language which common for globally for all corporate giant. Author has also concluded that Ind AS is converged form of IFRS and most of provision of IFRS is adopted in Ind AS. There is major difference between Indian GAAP and IFRS.

(N.Sharadha, V.Manickavasagam; 2018) ^[4]; in the study of “Ind AS – India’s accounting standards converged with the IFRS (Ind AS adoption and applicability)” try to intended to identify the need of Ind AS and challenges for the same. Also describe that Ind AS has more disclosure requirement and other new concept in financial reporting. End of study author has concluded that there is set of financial statement for the purpose of reporting as per Ind AS which is describe in the paper. Accounting activity cannot be work in isolation it is integrated, coordinated activity with primary activity in the business.

(MinoutiJani and SonalGogri; 2018) ^[5] has done the study on “Impact of Ind AS on corporate governance” and has try to find out growth of Indian capital market due to having convergence with international financial reporting standard to Accounting standard which ultimately known as Ind AS. Due to growth in international capital market and cross border transaction like merger and acquisition standardization and harmonization is become very essential in that respect to take in confidence to global investor. They also describe various benefit due to implementation of Ind AS in this paper. They also mention the successful implementation of Ind AS lead to true and fair view of accounting. Which is more relevant in today’s financial reporting practice and more focus of this study is on corporate governance.

(Dr. B. Shekhar; 2013) has done study on “Relevance of International financial reporting standard in the globalised economy: empirical study” in his research found that IFRS removes puzzlement from the minds of investor because it gives accurate, translucent single accounting statements, which in fact gives true and fair vision of state of matters of an organization. The basic problem which address in this study is when firm operate in different country than how can anyone understand different standard which again required modification in the existing standard. National accounting standard are available to India is GAAP which again need to from as comparable to International standard. In this study also mention applicability of accounting standard applicable to various firm and industries. There is numerous benefit also find in this study.

Need of the Study

Here from the above literature review it has been observed that majority of the research work done in the field of accounting was on the IFRS, impact of the same, implication of the same and many more relevant area has been covered, at the same time adoption of IFRS done through Ind AS it has been implemented also in the Indian corporate but specific impact measurement was not there in the study.

Till the date no study has been done on the Ind AS impact of financial performance of individual company so here in this research provide “A study on Impact of Ind AS on Reporting of financial performance of Tata Motors”

Objective of the stud

Following are the main objective of the study:

- To understand the impact of Ind AS on financial performance of Tata Motors.
- To compare the financial performance of Tata Motors through implication of AS and Ind AS.

Hypotheses of the Study

To achieve the objective of the study following hypotheses has been considered;

Null hypothesis (H₀)

1. There is no significance difference in profitability of Tata Motors before and after implementation of Ind AS.
2. There is no significance difference in Financial Leverage of Tata Motors before and after implementation of Ind AS
3. There is no significance difference in Efficiency of Tata Motors before and after implementation of Ind AS
4. There is no significance difference in Liquidity of Tata Motors before and after implementation of Ind AS

Alternative Hypothesis (H₁)

1. There is significance difference in profitability of Tata Motors before and after implementation of Ind AS
2. There is significance difference in Financial Leverage of Tata Motors before and after implementation of Ind AS
3. There is significance difference in Efficiency of Tata Motors before and after implementation of Ind AS
4. There is significance difference in Liquidity of Tata Motors before and after implementation of Ind AS

Research Methodology

Types of research

This research is empirical in nature because we need to get conclusion based on available evidence which can be direct or indirect.

Period of study

To conduct this study, I have consider Ten financial years, viz.2011-12, 2012-13, 2013-14, 2014-15, 2015-16,2016-17, 2017-18, 2018-19, 2019-20 and 2020-21.

Collection of data

Data has been be collected from the annual report of the selected companies. Annual report was collected from the official website of selected companies. Other formal source for data collection has been used in the study are Money control.

Data analysis and statistical tools

The data collected from the above stated methods, has been analysed by using various statistical tools like percentage, Average, Standard Deviation, T-test etc.

t- test

A t-test is an analysis framework used to determine the difference between two sample means from two normally distributed population with unknown variance. T-test used when samples are small size i.e., 30 and population variance are not known.

A t-test compares the difference between two means of different groups to determine whether that difference is statistically significant or not. Student t-test for different purpose like-‘t’ test for one sample’s’ test for unpaired two sample and ‘t’ test for paired two sample.

Limitations of the Study

- The study covers only 10 years.
- Results of this research are confined and limited to one company.
- The statistical techniques used by researcher have their own limitations.
- The research will be completely based on secondary data and secondary bias cannot be avoided.

Data Collection

		Profitability Ratio											
		AS					Ind AS						
Ratios		2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Avg. of AS	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Avg. of IND AS
	TATA Motors	PBDIT Margin	8.74	8.48	8.52	1.77	10.15	7.532	5.84	8.27	10.82	1.66	4.96
PBIT Margin		5.79	4.42	2.48	-5.39	4.71	2.402	-1	2.99	6.35	-6.01	-2.86	-0.106
PBT Margin		2.46	0.39	-2.99	-10.95	0.36	-2.146	-5.31	-1.6	3.46	-16.22	-4.91	-4.916
Net Profit Margin		2.28	0.67	0.97	-13.05	-0.14	-1.854	-5.48	-1.75	2.91	-16.59	-5.09	-5.2
Return on Networth / Equity		6.33	1.57	1.74	-31.93	-0.26	-4.51	-11.48	-5.13	9.11	-39.64	-12.57	-11.942
Return on Capital		3.84	0.97	2.75	-16.02	5.31	-0.63	-1.19	5.04	11.57	-7.18	-3.46	0.956

Employed													
Return on Assets		2.27	0.57	0.67	-9.48	-0.1	-1.214	-4.12	-1.74	3.31	-11.64	-3.68	-3.574
Financial Leverage Ratio													
		AS						Ind AS					
Ratios		2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Avg. of AS	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Avg. of IND AS
TATA Motors	Interest Coverage ratio	2.58	1.42	0.64	-1.21	1.26	0.938	-0.28	1.011	2.45	-1.33	-0.57	0.2562
	Proprietary ratio	35.99	36.66	38.55	29.75	41.04	36.398	41.94	34.06	36.38	29.38	29.28	34.208
	Total Debt/Equity	0.56	0.75	0.76	1.35	0.61	0.806	0.89	0.81	0.79	1.14	0.99	0.924
	Capital Gearing Ratio	2.45	2.37	1.96	1.2	2.19	2.034	1.54	1.53	1.59	1.18	1.16	1.4

Efficiency Ratio													
		AS						Ind AS					
Ratios		2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Avg. of AS	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Avg. of IND AS
TATA Motors	Inventory Turnover Ratio	11.84	10.05	8.88	7.56	8.37	9.34	7.98	10.38	14.84	11.46	10.33	10.998
	Account receivable ratio	0.05	0.04	0.035	0.031	0.048	0.0408	0.049	0.06	0.047	0.0454	0.0448	0.0492
	Account Payable ratio	0.161	0.19	0.285	0.249	0.121	0.2012	0.163	0.163	0.151	0.186	0.174	0.1674
	Asset Turnover Ratio	99.6	85.78	68.94	72.67	75.59	80.516	75.26	99.35	113.61	70.18	72.28	86.136

Liquidity Ratio													
		AS						Ind AS					
Ratios		2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Avg. of AS	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	Avg. of IND AS
TATA Motors	Current Ratio	0.62	0.48	0.36	0.42	0.63	0.502	0.59	0.62	0.58	0.53	0.6	0.584
	Quick Ratio	0.41	0.27	0.15	0.19	0.36	0.276	0.33	0.38	0.37	0.38	0.43	0.378
	Dividend Pay-out Ratio	103.09	213.77	193.87	0	0	102.146	0	0	0	0	0	0
	Dividend Pay-out Ratio	44.95	30.44	26.96	0	0	20.47	0	0	0	0	0	0
	Earnings Retention Ratio	-3.09	-113.77	-93.87	0	0	-42.146	0	0	0	0	0	0
	Cash Earnings Retention Ratio	55.05	69.56	73.04	0	0	39.53	0	0	0	0	0	0

Above data has been done average of AS and Ind AS for the purpose of application of paired t-test.

Analysis and Discussion

Profitability

H₀: There is no significance difference in profitability of Tata Motors before and after implementation of Ind AS.

H_a: There is significance difference in profitability of Tata Motors before and after implementation of Ind AS.

t-Test: Paired Two Sample for Means		
	Average of AS	Average of Ind AS
Mean	-0.06	-2.63886
Variance	15.45480933	33.09803
Observations	7	7
Pearson Correlation	0.913399164	
Hypothesized Mean Difference	0	
Df	6	

t Stat	2.536394183	
P(T<=t) two-tail	0.044295837	
t Critical two-tail	2.446911851	

Interpretation

From the above table we can see that P value is 0.044 which is lower than that of 0.05 significance level hence here null hypothesis will be not accepted which means There is significance difference in profitability of Tata Motors before and after implementation of Ind AS.

Financial Leverage

H₀: There is no significance difference in Financial Leverage of Tata Motors before and after implementation of Ind AS.

H_a: There is significance difference in Financial Leverage of Tata Motors before and after implementation of Ind AS.

t-Test: Paired Two Sample for Means		
	Average of AS	Average of Ind AS
Mean	10.044	9.19705
Variance	308.9844	278.2412545
Observations	4	4
Pearson Correlation	0.999777	
Hypothesized Mean Difference	0	
df	3	
t Stat	1.750999	
P(T<=t) one-tail	0.089123	
t Critical one-tail	2.353363	
P(T<=t) two-tail	0.178246	
t Critical two-tail	3.182446	

Interpretation

From the above table we can see that P value is 0.178 which is higher than that of 0.05 significance level hence here null hypothesis will be accepted which means There is no significance difference in Financial Leverage of Tata Motors before and after implementation of Ind AS.

Efficiency Ratios

H₀: There is no significance difference in Efficiency of Tata Motors before and after implementation of Ind AS.

H_a: There is significance difference in Efficiency of Tata Motors before and after implementation of Ind AS.

t-Test: Paired Two Sample for Means		
	Average of AS	Average of Ind AS
Mean	22.5245	24.33766
Variance	1513.563867	1723.70339
Observations	4	4
Pearson Correlation	0.999927593	
Hypothesized Mean Difference	0	
df	3	
t Stat	-1.36464241	
P(T<=t) one-tail	0.132853898	
t Critical one-tail	2.353363435	
P(T<=t) two-tail	0.265707796	
t Critical two-tail	3.182446305	

Interpretation

From the above table we can see that P value is 0.266 which is higher than that of 0.05 significance level hence here null hypothesis will be accepted which means There is no significance difference in Efficiency of Tata Motors before and after implementation of Ind AS.

Liquidity Ratio

H₀: There is no significance difference in Liquidity of Tata Motors before and after implementation of Ind AS.

H_a: There is significance difference in Liquidity of Tata Motors before and after implementation of Ind AS.

t-Test: Paired Two Sample for Means		
	Average of AS	Average of Ind AS
Mean	20.12966667	0.160333333
Variance	2352.167946	0.065939867
Observations	6	6

Pearson Correlation	-0.304597276	
Hypothesized Mean Difference	0	
df	5	
t Stat	1.006930929	
P(T<=t) one-tail	0.180091421	
t Critical one-tail	2.015048373	
P(T<=t) two-tail	0.360182842	
t Critical two-tail	2.570581836	

Interpretation

From the above table we can see that P value is 0.360 which is higher than that of 0.05 significance level hence here null hypothesis will be accepted which means There is no significance difference in Liquidity of Tata Motors before and after implementation of Ind AS.

Conclusion

Summary table for significant findings

Company	Ratio	P Value	Null Hypo.(H0)	Alt. Hypo (H1)
TATA Motors	Profitability	0.044	Rejected	Accepted
	Financial Leverage	0.178	Accepted	-
	Efficiency	0.266	Accepted	-
	Liquidity	0.360	Accepted	-

Significant finding from this study is majority cases null hypothesis is accepted which shows there are no significant impact on the reporting of financial statement on liquidity, efficiency and financial leverage but only profitability ratio shows that there are significant difference as there is null hypothesis is rejected and alternate hypothesis is accepted.

Above study need further research for identification of reason that why it is so happen that only profitability has significance impact and other measure like financial leverage, efficiency and liquidity are not impacted significantly. Here we can conclude that profitability of TATA Motors are impacted due to change in financial reporting format from AS to Ind AS which might affect decision of users of Financial Statement.

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