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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	**PATIENT SATISFACTION TOWARDS HEALTH CARE AND PHARMACEUTICAL CARE SERVICES: A STUDY OF SELECTED HOSPITALS IN GUNTUR CITY, ANDHRA PRADESH, INDIA** *Dr. D. LALITHA RANI & Dr. V. SRI VENKATESWARA RAO*	1
2.	**EARNING VOLATILITY SCENARIO PRE AND POST IMPLEMENTATION OF IFRS IN SELECTED INDIAN COMPANIES** *NEDA POURADELI ASHJAEI & Dr. N. NAGARAJA*	6
3.	**THE TESTING OF HOMOGENEITY & FINANCIAL DISTRESS: A STUDY ON MAHARATNA COMPANIES** *ANUSREE BOSE & SAYAN BASU*	11
4.	**A STUDY ON THE CAUSES OF THE DOWNFALL OF NBFCs IN INDIA: A CASE ANALYSIS OF DHFL & IL& FS** *PURNIMA SARKAR & RIT BISWAL*	19
5.	**AN INVESTIGATION OF THE FACTORS IMPACTING ON FINANCIAL PLANNING AND MANAGEMENT IN SECTION 21 SCHOOLS IN THE SAYIDI CIRCUIT, KWA-ZULU NATAL** *BHAVASHNI KANHAI & Dr. HERRISON MATSONGONI*	24
	REQUEST FOR FEEDBACK & DISCLAIMER	31

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EARNING VOLATILITY SCENARIO PRE AND POST IMPLEMENTATION OF IFRS IN SELECTED INDIAN COMPANIES

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ABSTRACT

The study analyses the impact of the required introduction of IFRS requirements on earnings volatility, and extra precisely on earnings management. We focus impact IFRS on selected companies in India. We find that the earnings volatility during pre and post-IFRS period are not the same in the selected companies. In different words, the IFRS adoption has influenced (reduced) the Earning Before tax and Provision to Total Assets in terms of income volatility or standard deviation, IFRS adoption because of the use of fair value accounting. The findings show that IFRS adoption leads to higher earnings volatility for IFRS adopting companies in India. Our findings confirm that sharing policies aren't a sufficient situation to create a commonplace business language, and that management incentive and countrywide institutional elements play a crucial role in framing financial reporting traits. We endorse that the IASB, the SEC and the EU commission have to now dedicate their efforts to harmonizing incentives and institutional elements instead of harmonizing accounting standards requirements.

KEYWORDS
earning volatility, earning management, IFRS, Indian companies.

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INTRODUCTION

International Financial Reporting Standards (IFRS) convergence, in current years, has grown momentum all over the world. As the capital markets become increasingly general in nature, more and more investors see the need for a common set of accounting standards. International Financial Reporting Standards (IFRS) are designed as a joint worldwide language for commerce. The International Financial Reporting Standards (IFRS) are a set of rules and standards for preparing a financial statement. The IFRS are issued by an organization called the International Accounting Standards Board (IASB). the goal of the IFRS is to standardize the regulation and procedures for financial statement preparation around the world. Currently, several countries have their own sets of standards for accounting rules and laws for plan preparation of financial statements.

Across the globe, many countries are beginning to conform to IFRS with the globalization of international financial markets, the idea of adopting a common language for financial reporting to develop international comparability has become widespread. Of all the possible methods in which of implementing one financial language, adoption of International Financial Reporting Standards (any further IFRS, which encompass vintage and revised IAS) was the technique decided on by Europe and lots of different countries. More than one hundred countries have united to need or permit adoption of IFRS, or have mounted timelines for the adoption of IFRS. In current years, Brazil, Canada, China, and India have all committed to formal timelines for the adoption of IFRS, and Japan has created 2011 its goal for convergence to IFRS. Those in favour of implementing IFRS argued that a shared set of standards could make it easier to evaluate the financial performance of companies throughout the exclusive country.

This would enhance the effectiveness of competition for international funds and make international capital markets more efficient, leading to a lower cost of capital for firms. this expected benefits are based on the premise that mandating the use of IFRS increases transparency and improves the quality of financial reporting. However, there is evidence that accounting standards play only a limited role in determining observed reporting quality.

The application of accounting standards involves tidy judgment and therefore the use of personal info, and as a result, IFRS (like the other set of accounting standards) give managers with substantial discretion. however way this discretion is employed depends on firm-specific characteristics (reporting incentives and operative characteristics), (D. C. Burgstahler, Hail, & Leuz, 2006), and national legal establishments (Ball, Kothari, & Robin, 2000) In this text, we tend to analyze whether or not the obligatory introduction of IFRS standards had a bearing on earnings volatility, and a lot of exactly on earnings management. This paper makes 2 contributions to the literature.

First, we focus on firms in India in which the early adoption of IFRS become now not possible before the transition date. Past literature has studied the economic consequences of IFRS adoption (Leuz, 2003); (Barth, Landsman, & Lang, 2008)however the papers involved analyzed firms that voluntarily adopted IFRS in jurisdictions in which one of these steps turned into viable (e.g., Germany, Switzerland). Although in one paper, (Jeanjean & Stolowy, 2008) they found that the pervasiveness of earnings management did not decline after the introduction of IFRS, and in fact, increased in France. This choice bias should doubtlessly cause overestimation of the predicted benefits of the transition to IFRS, that is inferred solely from studying firms that determined it in their concern to adopt IFRS earlier than their application changed into obligatory. The compulsory nature of the alternate across all public firms in our personal pattern removes any sample choice bias

Second, most of the past literature has targeted the economic consequences of adopting IFRS. As an instance, (Verrecchia & Leuz, 1999) analyze the impact of IFRS adoption on trading volumes. In this paper, we concentrate on the effect of pre and post IFRS adoption on earnings volatility. this is an additional direct gauge of the impact (if any) of IFRS adoption on financial reportage quality.

We concentrate on nine companies, namely Airtel, Dabur, Dr Reddy, Infosys, Mindtree, Noida, Tata motor, Tata TCS, Wipro. We select these nine companies because they are IFRS first-time adopters – we determined earnings volatility for a period of ten years (five years prior to IFRS adoption and five years after IFRS adoption. The companies must have at least four observations for each period (before and after) to be included in the analysis. We analyse the distribution of earnings to discover whether companies in these companies have managed their earnings to avoid losses any less after the implementation of IFRS rather than to the pre-IFRS period.

Our paper is a problem for some caveats. First, our findings can be depending on our proxy for earning volatility control: the choice to keep away from losses. But, the use of different metrics (which includes the discretionary accruals model) is complex, because the adoption of IFRS is just too recent to offer enough statistics

for researchers. It's miles probably that the effects of IFRS adoption in phrases of profits management will not be seen for some time. It may take numerous years until financial analysts and financier can efficaciously examine financial statements of firms from different countries. The volatility of earnings means that the quantity that is attributed to shareholders will maintain on fluctuating. This is generally a quantity that the company's management is sure that it's far able to pay out to shareholders. This amount can then handiest be increased whilst the management foresees a favourable future ahead for the company(Brockington, 1993).

OBJECTIVES OF THE STUDY

This study intends to examine the impact of IFRS on the earnings volatility in Indian companies following implementation of IFRS. To answer the research questions, the research objectives are as follows:

1 To review the conceptual framework of earnings volatility as well as to understand the differences between IFRS and Indian Accounting Standard (IAS).
2 To investigate the earnings volatility of the companies under the study before and after IFRS adoption.
3 To compare the earnings volatility in IFRS and non-IFRS adopting companies.

DATA AND METHODOLOGY

This paper utilises a sample of the Indian public and private companies with adopting IFRS for ten years including five years before and five years after adoption. This research used data extracts from consulting income Statement and consulting balance sheets of the selected companies. The companies' financial information was gotten from the companies' website and the period of collecting information was taken ten years for companies adopted with IFRS and non-adopted with IFRS. The select study period also was covered the period before IFRS adoption (2011) and after IFRS adoption in India. Public and private companies' information was employed in order to analyze the study.

INDIA AND IFRS

In May 2006 the board of the Institute of Chartered Accountants of India (ICAI) conducts an assembly with the motive of the dialogue approximately adoption and implementation of IFRS for big agencies especially individuals who are listed inside the stock marketplace with a huge amount of turnover. In this assembly, the board expects to represent the higher picture of 49 Indian firms, in addition, to symbolize a better idea in finance and accounting profession within the global so it could create better opportunities for professional and expert Indian human beings in accounting region and additionally other jobs in overseas nations. In the Accounting Standards Board (ASB) has been discussed a number of the principle issues became concerning regulations and regulatory troubles to Arrange financial statements some other turbulence because of convergence with IFRS in India regarding a position of the financial surrounding of the country.

Companies in India are also raising capital from foreign countries and are involved in diversification, investment and cross-border mergers. Funds are moving across borders of many countries. If organizations report as consistent with the rules prescribed with the aid of the local regulatory our bodies, investors could observe the accounting standards throughout numerous countries earlier than making an investment. International Financial Reporting Standards (IFRS) came into Effect in 2011 in India with the main purpose of establishing a common set of accounting standards to promote the comparability of financial statements around the globe (Gupta, 2012).

Indeed, sound accounting standards underline the trust that investors vicinity in financial reportage information and so play a totally crucial position in a tributary to the monetary improvement of a country. The "Institute of Chartered Accountants of India" (ICAI) is the accounting requirements-formulating body in the country, has constantly created efforts to formulate superiority accounting standards and has been triple-crown in doing accordingly the greater part of the nations in everywhere throughout the world moving towards International Financial Reporting Standards (IFRSs) rather than their national accounting standards.

Financial reporting in India is present process a momentous transformation as a result of the adoption of Indian Accounting Standards (Ind AS) which are converged with International Financial Reporting Standards (IFRS). The notification of those IFRS converged requirements top off substantial gaps that exist in the modern accounting guidance, and India can declare to have financial reporting standards which might be cutting-edge and clearly at par with the leading universal standards. This may, in flip, improve India's region in universal ratings on company governance and transparency in financial reporting. Around a hundred and fifty countries have already adopted IFRS of their economy. But in India, MCA has the resolution to move for complete convergence of IFRS via 2018 thru IND AS (Kantayya & Panduranga, 2017).

In India, there are two sets of Accounting Standards: First, the existing Indian Accounting Standards (IAS) which will be applicable to all companies which are not required to adopt IFRS converged standards. and second, Indian Accounting Standards, as converged with IFRS (IND-AS) which will be relevant to companies operating in India in a phased manner (IFRS in India, ASA-2011). In early 2010, the Ministry of Corporate Affairs (MCA) issued various press releases on the IFRS roadmap and convergence plan for India specifying the convergence date to be 1 April, 2011, through 2014 for select Indian companies. (IFRS in India, PWC-2010). consequently, the Accounting Standards issued by the ICAI have supported the IFRSs. However, wherever departure from IFRS is secure, keeping visible the Indian conditions, the Indian Accounting Standards are changed to that extent.

EARNING VOLATILITY

Earning volatility is one of the key determinatives of danger and of the ensuing marketplace rate of a stock. earning's volatility refers to stable or volatile the profits of firms. A company whose earnings oscillate by an extremely deal is a risky investment. Such risky earnings make it very hard for management to devise beforehand. Frequently when funds ought to be borrowed for lengthy-time period investments. This will imply, the primary problem, and resulting in utmost cases. Therefore, managers attempt now not simplest to maximize earnings but also to adumbration normalize them. Normalizing a variable approach minimizing version and thereby lowering its volatility. Volatility in earnings also refers to the probability that actual earnings will vary from the anticipated earnings because of certain macro and microeconomic situations. (Wolfgang & Opfer, 2003).

Minimise the loss in portfolio earnings under extreme conditions given a certain level of expected earnings under normal conditions – equivalent to maximising expected earnings to earnings tail risk. suggest that earnings volatility is a result of recognizing unrealized gains and losses from changes in fair value (Barth, Landsman, & Wahlen, 1995).

THE IMPACT OF IFRS ON ADOPTERS' EARNINGS VOLATILITY

Managing with earnings volatility and uncertainty within the delivery and demand for regulatory capital, the impact of IFRS, it is allowing better management of the interaction of delivering and demand dynamics for regulatory capital, combining a financial framework with regulatory capital and new loss recognition regulation. Stakeholders pay close attention to earnings as they have significant impacts on stock prices. Typically, they prefer higher earnings with lower earnings volatility. With IFRS, the earnings volatility is expected to decrease significantly across the portfolio. Minimise the portfolio's earnings volatility given a certain level of expected earnings – equivalent to maximising expected earnings to earnings volatility ratio.

To test the impact of IFRS adoption on companies' earnings volatility, this thesis follows the method used by (Boubakri, Cosset, Fischer, & Guedhami, 2005)where a univariate test is led to testing the volatility changes by comparing the mean earnings volatility before and after IFRS adoption. Given constraints on data availability, and consequently the difficulties of implementing the methods based on accruals, in this paper we want to discover whether companies managed their earnings to avoid losses any less after the implementation of IFRS.As (Glaum, Lichtblau, & Lindemann, 2004)remind readers, threshold-oriented earnings management studies (D. Burgstahler & Dichev, 1997)) analyze the distributions of reported earnings and find that the frequencies of small losses are unusually low, whereas the frequencies of small profits are extraordinarily high. Without earnings management, we would expect the distribution to be relatively smooth around thresholds.

Paired-samples t-test is used to compare the mean difference between the pre- and post-adoption earnings volatility for the adopters' sample. The null hypothesis is the earnings volatility of IFRS adopters before and after IFRS are the same. the earnings volatility is determined for a period of ten years (five years prior to IFRS

adoption and five years after IFRS adoption. The companies must have at least four observations for each period (before and after) to be included in the analysis. After the mean changes of pre- and post-IFRS adoption is compared. Using Paired-sample t-tests a non-parametric test is then performed to test the significant changes in the median of earnings volatility. The null hypothesis is that the median difference in earnings volatility before and after IFRS adoption is the same.

RESEARCH DESIGN AND SAMPLE

This study uses the standard deviation of earnings before taxes and provisions (SDEAR) to see the impact on earnings volatility because the changes in fair value amounts are recorded in profit and loss. Items such as gains/ (losses) on available-for-sale securities and gains/ (losses) on cash flow hedging instruments are reported in the income statement. These items directly affect operating income, earnings before taxes and provisions, and net income. However, only earnings before taxes and provisions are used as main variables to measure earnings in this study. This is because earnings before taxes and provisions are commonly used as a profitability measure in the companies because tax and provisioning systems differ across companies.

To determine earnings volatility, this thesis follows the method used by (Fiechter, 2011), where the standard deviations are calculated as follows:

σEAR before = STDV (EBTP it/Average total assets it) (1)

σEAR after = STDV (EBTP it/Average total assets it) (2)

Equation (1) is calculated to measure earnings volatility for the period before IFRS adoption by standard deviation, while Equation (2) measures the earnings volatility for the period after IFRS adoption through standard deviation as well.

The variable has been employed in this model is Ratio of Earning before tax and provision to total assets or Ratio EBTP: TA.

ANALYSIS AND DISCUSSION

Mean pre and post values of earning volatility of the selected companies and results of paired samples 't' tests.

TABLE 1

Earnings Volatility		Mean	S. D	Change	t	Sig
Ratio EBTP: TA (Ratio of Earning before tax and provision to total assets	Pre	0.21	0.25	-0.03	.919	.363
	Post	0.18	0.11			

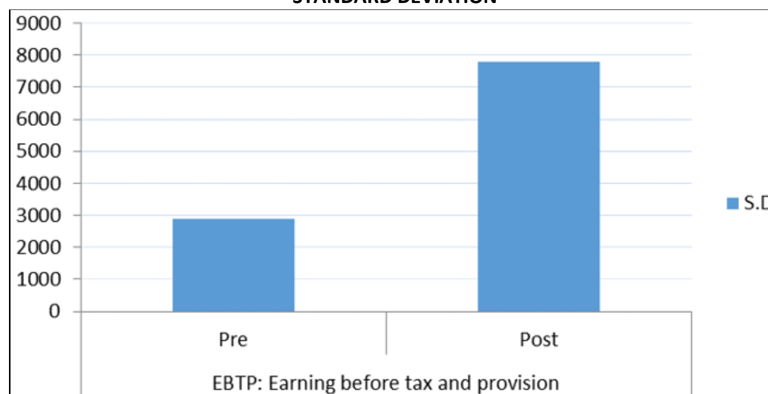
Ratio EBTP: TA (ration Earning before Tax and Provision to Total Assets): As far as ratio of EBTP to TA is considered, we find a significantly change from pre to post Ratio EBTP: TA. The standard deviation pre and post Ratio EBTP: TA were 0.25 and 0.11 respectively.: paired samples 't' test revealed a significant difference between pre to post ratio EBTP to TA (t=.919; p=.363)

FINDING

Therefore, the null hypothesis is not rejected meaning that the earnings volatility during pre and post IFRS period are not the same in the selected companies. In other words, the IFRS adoption has influenced (reduced) the Earning Before tax and Provision to Total Assets in terms of income volatility or standard deviation.

S.D pre and post scores on Ratio EBTP: TA (Ratio of Earning before tax and provision to total assets)

CHART 1
STANDARD DEVIATION



With 95% confidence, EBTP can be said to have a significant difference before and after IFRS. (p-value = 0.0001) and after IFRS has increased.

TABLE 2: DESCRIPTIVE STATISTICS

	Pre IFRS				Post IFRS			
	Mean	Std. Deviation	Minimum	Maximum	Mean	Std. Deviation	Minimum	Maximum
Earning Before Tax & Provision/total assets	0.18727	0.1353	0.0034	0.648	0.17828	.1052410	0.0429	0.3799

From the above table, it is observed that in absolute terms, mean of Earning Before Tax & Provision, Total assets and Earning Before Tax & Provision/total assets are more in after IFRS adoption as compared to before IFRS adoption. Even though the after IFRS increases compared to before IFRS in absolute terms, the testing of hypothesis of impact on earnings volatility using the t-test statistic at 5% level of significance. Reports our descriptive statistics for the three items, concerning the variables Income before extraordinary items, earning before tax and provision and the variable of interest/ Lagged total assets. In the table, the means are visibly much lower than the means after IFRS. This is similar to the phenomenon found in Glaum et al.'s (2004, p. 56) paper. It may be explained by the skewness of accounting variables but is not a problem for our research, as we concentrate more specifically on observations close to zero.

THE COMPARISON OF EARNINGS VOLATILITY BETWEEN IFRS ADOPTERS AND NON-ADOPTERS

To compare the earnings volatility of IFRS adopting companies and non-IFRS adopting companies before and after IFRS adoption, Independent-sample t-tests are employed. Earnings volatility is calculated based on Equation (1) and Equation (2). Similar to the previous section, earnings volatility is calculated for a period of ten years (five years prior to IFRS adoption and five years after IFRS adoption, for both adopters and non-adopters.

All companies use in this research with years of before adoption IFRS and after adoption of IFRS.

TABLE 3

Name of the company	Full years	Years Adoption with IFRS	Years non-adoption with IFRS
1) INFOSYS	2002-2016	2006-2016	2002-2005
2) DABUR	2005-2016	2009-2016	2008-2005
3) WIPRO	2005-2016	2010-2016	2009-2005
4) NOIDA TOLL BRIDGE	2005-2016	2006-2016	2007-2005
5) AIRTEL	2005-2016	2011-2016	2010-2005
6) TATA MOTOR	2005-2016	2013-2016	2012-2005
7) TATA TCS	2005-2016	2012-2016	2011-2005
8) MINDTREE	2007-2016	2012-2016	2011-2007
9) DR. REDDY'S LABORATORIES	2005-2016	2009-2016	2008-2005

TABLE 4: PRE AND POST SCORES ON RATIO EBTP: TA (RATIO OF EARNING BEFORE TAX AND PROVISION TO TOTAL ASSETS)

Company	Pre-score		Post score		Difference
	Mean	S. D	Mean	S. D	
Airtel	.1225	.06208	.0493	.00487	.06
Dabur	.2449	.03791	.2043	.03678	.00
Dr. Reddy	.0757	.06264	.1255	.03732	.02
Infosys	.3430	.05666	.3024	.01383	.04
Mindtree	.1513	.06383	.2441	.03141	.03
Noida	.0330	.02116	.0647	.01451	.00
Tata motor	.0772	.03988	.0812	.01619	.02
Tata TCS	.3242	.03590	.3552	.01662	.02
Wipro	.5137	.63561	.1779	.01696	.61
Total	.2095	.24804	.1783	.10524	.14

Results of repeated measure ANOVA on pre and post scores on EBTP: Earning before tax and provision of different companies.

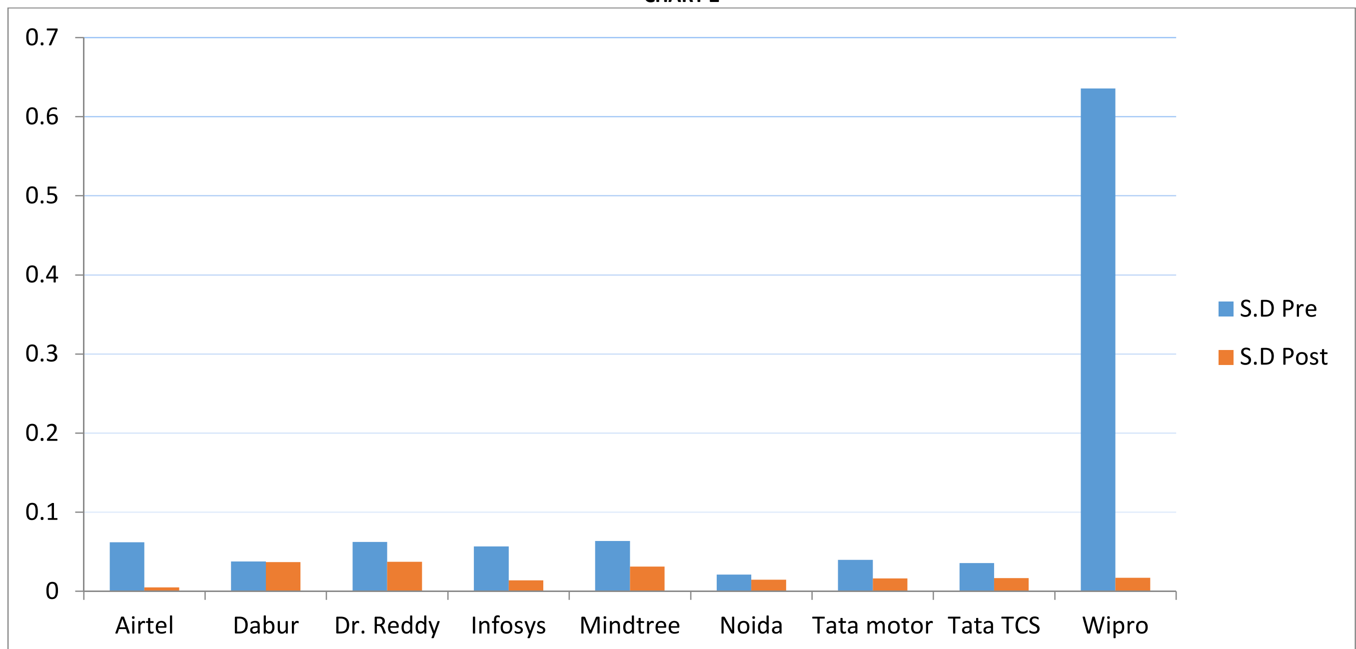
TABLE 5

Source of variation	Sum of Squares	df	Mean Square	F	Sig.
Within subject effects					
Intercept	541080133.334	1	541080133.334	119.791	.000
Change x company	589928708.652	8	73741088.582	16.326	.000
Error	162607899.645	36	4516886.101		
Between subject effects					
Intercept	2323114429.922	1	2323114429.922	321.075	.000
company	2028216054.609	8	253527006.826	35.040	.000
Error	260475370.313	36	7235426.953		

A significant increase in the EBTP scores were observed from pre to post. The pre-score for EBTP was 2628.65, which later increased to 7532.52 in the post. The increase of 4903.88 units from pre to post scores was found to be statistically significant. F value of 119.791 was found to be highly significant at.000 level. Further, company wise comparison for pre to post scores in EBTP was also found to be significant. F value of 16.326 was found to be significant at.000 level. This indicates that there was differential increase of EBTP for different companies. From the table it is evident that Mind tree and Infosys companies recorded maximum increase of 328.79 and 322.63 respectively, and Airtel recorded minimum increase in EBTP from pre to post. The other companies also recorded increase from 162.01 (Noida) to 268.79 (Tata motor) and others in between.

Pre and post SD scores on Earning before tax and provision

CHART 2



CONCLUSION AND DISCUSSION

Sharing incentives and institutions versus sharing rules in this article, we analyse whether the mandatory introduction of IFRS standards had an impact on earnings volatility, and more precisely on earnings management. We concentrate on nine companies, namely, Airtel, Dabur, Dr Reddy, Infosys, Mindtree, Noida, Tata motor, Tata TCS and the Wipro.

The nine companies were selected because they are IFRS first-time adopters: early adoption of IFRS was not possible in any of them. We find that the pervasiveness of earnings management did not decline after the introduction of IFRS, and in fact increased in Wipro company. Our findings confirm that sharing rules is not sufficient in itself to create a common business language. This is consistent with the idea that management incentives and national institutional factors play an important role in framing financial reporting characteristics, probably more important than accounting standards alone. We therefore suggest that the IASB, the SEC and the European Commission should now devote their efforts to creating common goals rather than harmonizing accounting standards.

Specifically, harmonization of legal enforcement systems, contest policies, marketplace access conditions, and effectiveness of the legal method are elements that seem better able to guarantee similar accounting practices throughout companies. therefore, we are able to assert that earnings quality is very too important an issue to depends on accounting standards alone. The findings display that IFRS adoption results in better earnings volatility for IFRS adopting companies in India. That is parallel with findings from (Iatridis & Rouvolis, 2010) that used a pattern of European companies. But caution must be exercised in decoding the findings because the volatility of earnings is probably pushed by the global financial disaster in 2008. Finally, this isn't supported, because the consequences of the univariate check-in do not find enough evidence to conclude that IFRS adopting companies have more earnings volatility than that of non-adopting corporations.

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