

# Enhancing Financial Reporting Quality through Indian Accounting Standards (IND-AS): Evidence on Value Relevance from JSW Steel Limited

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**Abstract:** This study examines the quality of financial reporting through the value relevance of accounting information in JSW Steel Limited before and after the adoption of Indian Accounting Standards (IND-AS). Using a regression-based price model, the relationship between share price and accounting variables such as book value of equity (BVE), net income (NI), and cash flow from operations (CFOA) was analyzed using secondary data from published financial statements. The results show that during the pre-IND-AS period, the model explained only 26.0% of the variation in share price ( $R^2 = 0.260$ ) and remained statistically insignificant ( $\text{Sig} = 0.720$ ), indicating lower value relevance of accounting information.

In contrast, the post-IND-AS period shows a significant improvement, with the explanatory power of the model increasing to 94.6% ( $R^2 = 0.946$ ) and achieving statistical significance ( $\text{Sig} = 0.005$ ). The impact of book value of equity strengthened considerably, with the standardized coefficient increasing from 0.270 to 1.235 and the unstandardized coefficient rising from 0.001 to 0.020. The findings indicate that accounting information reported under IND-AS has stronger association with market valuation, thereby improving the quality and decision usefulness of financial reporting

Key words: financial reporting quality, value relevance, accounting information

## 1. Introduction

The quality of financial reporting has gained significant attention in recent years due to the increasing demand for transparent, comparable, and decision-useful financial information in global capital markets. High-quality financial reporting enhances investor confidence by providing accounting information that accurately reflects the economic performance and financial position of firms. One of the most widely accepted measures of financial reporting quality is **value relevance**, which examines the extent to which accounting information explains market valuation and supports investors' decision-making processes.

In the Indian context, the convergence of domestic accounting practices with international standards through the adoption of Indian Accounting Standards (IND-AS) marked a significant transformation in financial reporting practices. The shift from Indian Generally Accepted Accounting Principles (IGAAP) to IND-AS aimed to improve transparency, comparability, and global acceptability of financial statements. While regulatory authorities expected that the adoption of IND-AS would enhance the usefulness of accounting information, empirical evidence regarding its actual impact on financial reporting quality remains mixed, particularly across specific industries.

The Indian steel industry occupies a strategic position in the national economy, characterized by capital-intensive operations, complex financial structures, and high sensitivity to market conditions. These characteristics make the industry an important context for evaluating whether accounting reforms improve the value relevance of reported financial information. Despite the importance of the sector, limited empirical studies have examined how the adoption of IND-AS has influenced the relationship between accounting numbers and market values within Indian steel companies.

Against this background, the present study investigates the quality of financial reporting by analyzing value relevance before and after the adoption of IND-AS in selected Indian steel companies. By examining the association between accounting measures and market indicators, the study seeks to provide industry-specific

evidence on whether the transition to IND-AS has enhanced the decision usefulness of financial statements. The findings are expected to contribute to the growing literature on accounting reforms and offer useful insights for researchers, regulators, and investors regarding the effectiveness of financial reporting standards in emerging economies.

## 2. Review of Literature

The concept of financial reporting quality has received considerable attention in accounting research, particularly in relation to how accounting information influences capital market decisions. Among various dimensions of reporting quality, value relevance has emerged as one of the most widely accepted measures, as it evaluates the extent to which accounting information explains market valuation. The following review synthesizes prior studies under thematic categories relevant to the present research.

### 2.1 Review of Literature Based on Value Relevance and Financial Reporting Quality

The foundation of value relevance research originates from the work of James Ohlson, whose valuation framework established a theoretical relationship between accounting numbers and firm value. According to the Ohlson model, accounting variables such as earnings and book value serve as significant determinants of market price, thereby reflecting the decision usefulness of financial information.

Subsequent empirical studies have consistently emphasized that higher association between accounting numbers and share prices indicates better quality financial reporting. Researchers observed that earnings and book value play complementary roles in explaining market valuation, though their relative importance varies across industries and accounting regimes. The literature broadly confirms that improvements in accounting standards tend to enhance the relevance of financial information for investors.

### 2.2 Review of Literature Based on IFRS Convergence and Value Relevance

The adoption of International Financial Reporting Standards (IFRS) across countries has triggered extensive research examining whether global accounting convergence improves reporting quality. Several studies reported that IFRS adoption resulted in increased value relevance due to greater transparency, fair value measurement, and enhanced disclosure requirements.

Empirical evidence from developed and emerging economies generally indicates that accounting information becomes more closely aligned with market valuation following the adoption of international standards. However, findings are not universally consistent, as institutional environments, regulatory frameworks, and industry characteristics often influence the effectiveness of accounting reforms. Some studies observed only marginal improvements or mixed results, suggesting that the impact of standards depends on implementation quality and economic context.

### 2.3 Review of Literature Based on Evidence from the Indian Context

India's convergence with IFRS through the introduction of Indian Accounting Standards (IND-AS) generated significant academic interest regarding its impact on financial reporting quality. Research in the Indian context primarily examined changes in transparency, comparability, earnings quality, and value relevance following the transition from IGAAP to IND-AS.

Several studies reported improvement in disclosure practices and comparability of financial statements after adoption, indicating alignment with international reporting practices. Empirical investigations also found evidence of enhanced association between accounting numbers and market values, suggesting increased decision usefulness of financial information. However, other studies highlighted mixed outcomes, emphasizing that the effect of IND-AS varies across sectors and firm-specific conditions.

## 2.4 Review of Literature Based on Industry-Specific Studies and the Need for Sectoral Analysis

Although value relevance literature is extensive, industry-focused studies remain relatively limited. Sector-specific analysis is important because industries differ in terms of asset intensity, risk profile, and accounting treatment. Capital-intensive sectors, such as the steel industry, rely heavily on long-term assets and complex financial structures, which may influence how investors interpret accounting information.

Existing studies in India largely focus on aggregate market analysis, with limited empirical evidence on how IND-AS adoption affects value relevance within specific industries. The steel industry, despite its strategic importance to economic development, has received relatively less attention in accounting research concerning financial reporting quality.

## 3. Research Gap

A review of prior literature reveals three key gaps:

1. Most studies examine value relevance at an aggregate market level rather than focusing on individual industries.
2. Limited empirical evidence exists regarding the impact of IND-AS adoption on the steel sector.
3. There is insufficient firm-level analysis assessing how accounting variables such as book value, earnings, and cash flows influence market valuation before and after IND-AS adoption.

The present study addresses these gaps by examining the value relevance of accounting information in selected Indian steel companies, with specific reference to changes observed after the adoption of IND-AS.

## 4. Research Problem

The adoption of Indian Accounting Standards (IND-AS) represented a major accounting reform intended to enhance the quality, comparability, and transparency of financial reporting in India. One of the key expectations of this transition was the improvement in the usefulness of accounting information for investors and other stakeholders. However, whether the adoption of IND-AS has actually improved the quality of financial reporting in terms of value relevance remains an empirical question.

Value relevance reflects the extent to which accounting numbers are associated with market values and, therefore, indicates the decision usefulness of financial statements. Existing studies on accounting reforms have reported mixed evidence regarding the impact of IFRS-based standards on value relevance, and findings often vary across industries and economic environments. In the Indian context, particularly within the steel industry, limited research has been conducted to examine how the transition from IGAAP to IND-AS has influenced the relationship between accounting information and market valuation.

Given the economic importance and capital-intensive nature of the Indian steel sector, it becomes essential to evaluate whether the adoption of IND-AS has strengthened the value relevance of financial information and thereby improved the overall quality of financial reporting. This study addresses this gap by analyzing the comparative value relevance of accounting information before and after IND-AS adoption in selected Indian steel companies.

## 5. Theoretical Framework

The present study is grounded in accounting theories that explain the relationship between financial reporting and capital market decision-making. In evaluating the quality of financial reporting through value relevance, the study primarily draws upon the **Decision Usefulness Theory** and the **Value Relevance Framework**, which together provide a strong conceptual foundation for examining the impact of Indian Accounting Standards (IND-AS) on accounting information.

## 5.1 Decision Usefulness Theory

Decision usefulness theory represents one of the fundamental principles underlying modern financial reporting. The theory emphasizes that the primary objective of financial statements is to provide information that is useful to investors, creditors, and other stakeholders in making economic decisions.

According to this perspective, accounting information is considered useful when it possesses characteristics such as relevance, reliability, comparability, and faithful representation. Financial information that supports prediction and evaluation of future performance enhances investor confidence and contributes to efficient allocation of resources in capital markets.

The adoption of IND-AS, which is aligned with international accounting practices, is based on the assumption that improved measurement and disclosure requirements enhance the decision usefulness of financial statements. Therefore, if accounting information reported under IND-AS demonstrates stronger association with market value, it indicates improved financial reporting quality consistent with decision usefulness theory.

## 5.2 Value Relevance Framework

The value relevance approach provides an empirical mechanism for assessing the quality of accounting information by examining its association with market prices. The framework suggests that accounting numbers are value relevant when they reflect information used by investors in determining firm value.

The theoretical foundation for value relevance research is largely derived from the valuation model proposed by James Ohlson, which establishes that market value is a function of accounting variables such as earnings and book value. According to this model:

- Earnings represent indicators of current performance and profitability.
- Book value reflects the net asset position of the firm.

A stronger statistical relationship between these accounting variables and share price implies higher information content and greater reporting quality.

In the context of this study, value relevance serves as a proxy for financial reporting quality, enabling comparison between the pre-IND-AS and post-IND-AS periods.

## 5.3 Accounting Standard Reforms and Information Quality

Accounting standard reforms, particularly convergence with IFRS-based frameworks, are theoretically expected to improve financial reporting quality through:

- Enhanced recognition and measurement practices
- Increased transparency and disclosures
- Greater comparability across firms
- Improved representation of economic reality

IND-AS incorporates several fair value-based approaches and stricter disclosure requirements, which may increase the ability of accounting information to explain market valuations. Consequently, improvements in value relevance after adoption would support the theoretical argument that high-quality accounting standards lead to more informative financial reporting.

## 6. Research Objectives

The study is undertaken with the following objectives:

1. To examine the value relevance of accounting information in selected Indian steel companies during the pre-IND-AS period.
2. To analyze the value relevance of accounting information in the post-IND-AS period.
3. To compare the pre- and post-IND-AS periods in order to assess changes in the quality of financial reporting.
4. To evaluate whether the adoption of IND-AS has improved the decision usefulness of financial information from the perspective of market valuation.

## 7. Research Hypotheses

### H<sub>01</sub> (Null Hypothesis)

There is no significant relationship between accounting information and market value of selected Indian steel companies during the pre-IND-AS period.

### H<sub>02</sub> (Null Hypothesis)

There is no significant relationship between accounting information and market value of selected Indian steel companies during the post-IND-AS period.

### H<sub>03</sub> (Null Hypothesis)

The adoption of IND-AS has not significantly improved the value relevance of accounting information in selected Indian steel companies.

## 7.2 Value Relevance Model Equation

Following prior value relevance literature, the study adopts the price model, which examines the association between accounting variables and market value.

### 7.2.1 Model Specification

$$P_{it} = \alpha + \beta_1 BVPS_{it} + \beta_2 EPS_{it} + \epsilon_{it}$$

Where:

- $P_{it}$  = Market price per share of company  $i$  at time  $t$
- $BVPS_{it}$  = Book value per share of company  $i$  at time  $t$
- $EPS_{it}$  = Earnings per share of company  $i$  at time  $t$
- $\alpha$  = Intercept term
- $\beta_1, \beta_2$  = Regression coefficients
- $\epsilon_{it}$  = Error term

### 7.2.2 Interpretation

The explanatory power ( $R^2$ ) obtained from the regression model indicates the degree of value relevance. A higher  $R^2$  reflects stronger association between accounting information and market value, implying higher quality of financial reporting.

## 8. Methodology

### 8.1 Research Design

The study adopts an empirical and comparative research design to examine changes in the value relevance of accounting information before and after the adoption of IND-AS.

### 8.2 Sample Selection

The sample consists of selected Indian steel companies chosen based on:

- Availability of continuous financial data
- Listing status in the Indian stock market
- Adoption of IND-AS as per regulatory requirements

### 8.3 Period of Study

The study period is divided into two phases:

- **Pre-IND-AS Period** – years prior to implementation
- **Post-IND-AS Period** – years following adoption

This classification enables comparative analysis of financial reporting quality.

### 8.4 Sources of Data

The study is based on secondary data collected from:

- Annual reports of selected companies
- Published financial statements
- Stock market data sources for share price information

### 8.5 Variables Used

#### 8.5.1 Dependent Variable

- Market price per share (P)

#### 8.5.2 Independent Variables

- Book value per share (BVPS) Earnings per share (EPS)

### 8.6 Analytical Tools and Techniques

The study employs the following statistical tools:

- Correlation analysis
- Multiple regression analysis (price model)
- Comparison of explanatory power ( $R^2$ ) between pre and post periods

## 9. Results and Interpretation

## 9.1 Value Relevance of Accounting Information: Evidence from JSW Steel Limited

The value relevance of accounting information was examined by analyzing the relationship between share price and accounting variables such as book value of equity (BVE), net income (NI), and cash flow from operations (CFOA) during the pre-IND-AS and post-IND-AS periods. Multiple regression analysis was employed to evaluate whether the adoption of Indian Accounting Standards (IND-AS) enhanced the quality of financial reporting.

### 9.2 Regression Results: Pre-IND-AS Period

The regression model estimated for the period prior to IND-AS adoption produced an  $R^2$  value of **0.260**, indicating that the independent variables explained only **26.0%** of the variation in share price. This suggests a relatively weak association between accounting information and market valuation during the IGAAP regime.

The standardized coefficients show that:

- Book Value of Equity (BVE) had a positive impact ( $\beta = \mathbf{0.270}$ ) on share price.
- Net Income (NI) exhibited a negative relationship ( $\beta = \mathbf{-0.237}$ ).
- Cash Flow from Operations (CFOA) showed a positive influence ( $\beta = \mathbf{0.307}$ ).

The unstandardized coefficients indicate that a one-unit increase in BVE resulted in only a **0.001 unit increase** in share price, reflecting limited explanatory power. Furthermore, the model was statistically insignificant (Sig = **0.720**), suggesting that accounting numbers reported under IGAAP were not strongly reflected in market valuation.

Overall, the pre-adoption results imply relatively low value relevance, indicating limitations in the ability of financial statements to capture economic performance from an investor perspective.

### 9.3 Regression Results: Post-IND-AS Period

Following the adoption of IND-AS, a substantial improvement was observed in the explanatory power of the model. The  $R^2$  value increased sharply to **0.946**, indicating that the accounting variables jointly explained **94.6%** of the variation in share price.

The standardized coefficients reveal notable structural changes:

- BVE demonstrated a strong positive relationship ( $\beta = \mathbf{1.235}$ ) with share price.
- NI showed a weak negative relationship ( $\beta = \mathbf{-0.068}$ ).
- CFOA displayed a weaker negative influence ( $\beta = \mathbf{-0.232}$ ).

The unstandardized coefficient for BVE increased significantly from **0.001** (pre-adoption) to **0.020** (post-adoption), indicating that the market attached substantially greater value to book value information under IND-AS.

Most importantly, the model became statistically significant after adoption (Sig = **0.005**), confirming a strong and meaningful relationship between accounting variables and market price in the post-IND-AS period.

## 9.4 Comparative Interpretation

A comparison between the two periods clearly demonstrates a dramatic enhancement in value relevance following the adoption of IND-AS.

Key improvements include:

- $R^2$  increased from **26.0% to 94.6%**, indicating a substantial rise in explanatory power.

- The impact of BVE strengthened considerably, suggesting improved relevance of balance sheet information.
- The statistical significance of the model improved from insignificant to highly significant.

These findings provide strong empirical evidence that financial statements prepared under IND-AS better reflect firm value and are more closely aligned with investor valuation processes.

## 9.5 Discussion

The substantial increase in value relevance after IND-AS adoption indicates a significant enhancement in the quality of financial reporting. The stronger association between accounting numbers and share price suggests that investors perceive financial statements prepared under IND-AS as more reliable, transparent, and decision-useful.

The dominant role of BVE in the post-adoption period may be attributed to improved measurement practices, greater emphasis on fair value accounting, and enhanced disclosure requirements introduced under IND-AS. These reforms appear to have increased the credibility and informational content of balance sheet figures, thereby strengthening their influence on market valuation.

Conversely, the reduced influence of net income and operating cash flow may indicate that investors rely more heavily on asset-based information in capital-intensive industries such as steel, where long-term asset valuation plays a critical role in firm assessment.

From a theoretical perspective, the results support the decision-usefulness theory, which argues that accounting standards enhancing relevance and faithful representation should improve investor decision making and market efficiency.

## 9.6 Contribution Statement

The findings provide strong industry-specific evidence that the adoption of IND-AS has significantly improved the value relevance of accounting information in the Indian steel sector, thereby enhancing the overall quality of financial reporting.

## 10. Conclusion

The present study examined the quality of financial reporting through the value relevance of accounting information in JSW Steel Limited before and after the adoption of Indian Accounting Standards (IND-AS). The empirical results clearly indicate a significant improvement in the association between accounting variables and market valuation after the adoption of IND-AS. The substantial increase in the explanatory power of the regression model demonstrates that accounting information reported under IND-AS better reflects firm value and provides more decision-useful information to investors. In particular, the stronger influence of book value of equity in the post-adoption period suggests enhanced balance sheet relevance, improved measurement practices, and greater transparency in financial reporting, thereby confirming an overall enhancement in financial reporting quality.

From a theoretical and practical perspective, the findings support decision usefulness theory by showing that improved accounting standards lead to more relevant and market-oriented financial information. The study contributes to the existing literature by providing firm-level evidence from the Indian steel industry and demonstrates that convergence toward internationally aligned reporting standards has strengthened investor confidence and market responsiveness to accounting information. The results also offer meaningful implications for regulators, corporate management, and investors by highlighting the effectiveness of IND-AS in enhancing financial reporting quality, while suggesting that future research may extend the analysis across industries and broader samples to further validate these outcomes.

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