International Financial Reporting Standards (IFRS): Implications on Conversion to IFRS For Infosys and Wipro

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Abstract: Globalization created the need to have common accounting language across the world leading to the development of International Financial Reporting Standards (IFRS) which have been designed as the common global accounting language for the businesses operating anywhere in the world. This would lead to having books of accounts which are based on same principles and so are comparable, understandable and reliable. When it comes to implementing IFRS, India is not far behind and has developed a roadmap to make the International Financial Reporting Standards applicable for all companies but in phases to ease out the complexities involved in the transition from local GAAP to IFRS beginning from April 2016 when it has been made mandatory for the companies which are listed and have net worth of Rs.500 crores or more. However, some companies listed on US stock exchange NASDAQ started applying earlier as they were required to file the statements with Securities Exchange Commission (SEC) either as per US GAAP or IFRS and it was convenient for the Indian companies to opt for IFRS. This paper is an attempt to understand how statements as per IFRS and as per Indian GAAP differed by studying the statements of Infosys and Wipro and gauge the implications for the selected two companies.

Keywords: IFRS, IASB, Globalization, Implementation, Transition, Implications

I. INTRODUCTION

Accounting is a language to communicate about the business to anyone who is interested to know the business. It consists of the various concepts, conventions, principles and assumptions that are followed to prepare the financial statements. All the countries over a period of years evolved their own such set of principles and conventions which they adopt in the preparation and presentation of financial statements which are known as Local GAAP meaning the locally followed Generally Accepted Accounting Principles (GAAP). A good financial reporting system supported by strong governance, high quality standards and firm regulatory framework is the key to economic development. Sound financial reporting statements based on sound accounting standards underline the trust that investors and other interested parties place in financial reporting information. And so significant role is of the standards followed to prepare and present the financial statements by the companies before such statements are available to the various stakeholders and hence its importance in the economic development of the country.

But with the advent of globalization a strong need was felt by the companies and the various stakeholders to have a common set of accounting standards to have a greater ease of doing business across various countries in the world as when the accounting standards are different the companies face the complexities of complying with the different standards and hence to maintain different set of books. Also, the various stakeholders faced the challenge to understand the different accounting standards followed in different countries. This strong need for common set of principles gave rise to International Financial Reporting Standards (IFRS) with the objective to create global financial reporting standards which can create sound business sense amongst the various stakeholders. And, so in 1973, international professionals from different countries established the International Accounting Standard Committee (IASC) with the objective to issue International Accounting Standards along with interpretations wherever necessary to implement the standards in its true spirit. In year 2001 International Accounting Standards Committee was superseded as International Accounting Standards Board (IASB). The objective is to develop high quality standards applicable in all the countries to have greater transparency, more comparability and comprehensive information for the various uses of financial statements for taking several decisions based on such statements. This would also boost the world capital markets and help companies reduce it overall cost of capital bringing more efficiency.

As per the latest information available on the IFRS website approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies, and approximately 90 countries have fully conformed with IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports (www.ifrs.com). In India the Institute of Chartered Accountants of India (ICAI) the governing body for the accounting profession in India released new accounting standards namely Ind AS which are converged on the lines of IFRS with minor deviations though ICAI plans to do away with the minor deviations also in the coming years. Though earlier it was proposed to apply the new IFRS converged accounting standards Ind AS from April 2011 but it got posted and a fresh roadmap was released which now has mandated to apply in phases starting with the listed companies having net worth of Rs.500 crore or more to apply the same from 1st April 2016. However certain companies that are listed in US stock exchange were given the option to apply either US GAAP or IFRS when introduced, the Indian companies opted for the IFRS and so such companies have been preparing both IFRS complied financial statements and financial statements as per existing GAAP. Infosys and Wipro are amongst such companies and here in the paper an attempt has been made to study the financial statement prepared under two set of accounting principles one IFRS and other the existing Indian GAAP and identify the impact when the numbers are reported into IFRS complied statements.

II. REVIEW OF LITERATURE

An attempt has been made to review and present the some of the research studies undertaken on IFRS convergence and adoption.

Chris Armstrong, Mary E. Barth, Alan D. Jagolinzer, Edward J. Riedl (2007). The authors in the paper studied the impact on the European stock market in relation to the several events associated after the IFRS adoption in Europe. They concluded that the investors reacted positively for the for such events where the adoption of IFRS was likely and negatively for events where the adoption of IFRS was not likely. Also, the investors were positive incase the IFRS adoption increased the quality of reporting for the firms than those where the quality of reporting for not much impacted.

Denis Posten. (2008) investigated in the paper the IT costs associated with the adoption and implementation of the IFRS and suggested that the organizations should also focus on the increased IT costs as there would be new requirements for data, information, the personnel required to maintain such data and other associated costs instead of only focusing on the presentation of the financial statements and complications therein.

Mary E. Barth, Chris Armstrong, Alan D. Jagolinzer, Edward J. Riedl (2008) examined how the European stock markets responded to the IFRS adoption and concluded that since IFRS is principle based as against rule based and so positive reaction is there for common law countries as against code law countries.

Holger Daske, Luzi Hail, Christian Leuz and Rodrigo Verdi (2009) studied the impact on the firms in various countries to see the impact of the IFRS adoption on the firms which mandatorily adopted IFRS and the ones which voluntarily adopted IFRS. They found that mandatory adoption of IFRS resulted into lot of positive impacts as it increased the transparency, stock market value, increased market liquidity and resulted in lower cost of capital. The results were better for the mandatory adoption due to strict regulatory environment as incase of voluntary adoption there were other non IFRS factors which resulted in enhanced value of the firms.

George Iatridis(2010) examined the impact of IFRS implementation on key financial measures for UK companies along with the effects of volatility. The findings suggested that when IFRS is implemented it has favourably impacted the growth and profitability of the companies as when fair value approach is adopted as per IFRS it results into volatility for the companies.

Kathryn Winney, Daniel Marshall, Blaise Bender and John Swiger (2010) examined the roadmap for the implementation of IFRS on US companies and highlighted several blocks for the successful transition from USGAAP to IFRS by conducting a survey of industry executives, CEOs, accounting professionals and people from academia. They identified five convergence and adoption roadblocks and questioned the roadmap for adoption by Securities Exchange Commission (SEC).

Tan, Wang & Welker (2012) examined the impact of the shift from local GAAPs to IFRS on the analysts and concluded that foreign analyst's forecasts accuracy is improved by the adoption of IFRS along with enhancing their interest in such companies which are IFRS compliant with the condition that their countries have also adopted IFRS and they have IFRS experience, however as far as the local analysts are concerned there is no change in their forecasts just by compliance of IFRS by the companies.

Srivastava & Bhutani (2012) studies the extent to which IFRS has been adopted by the organizations, the challenges and opportunities the companies are facing especially the lack of understanding on the content of the accounting standards by the personnel.

Kapoor & Ruhela (2013) examines the various challenges and issues in implementing IFRS in India by highlighting various issues such as multiple reporting, lack of awareness and complex regulatory framework in India and identification of new risk.

III. OBJECTIVE OF THE STUDY

The study has been conducted with the objective to understand how the financial statements when prepared under existing Indian GAAP are impacted when they are converted into IFRS complied financial statements with reference to two major IT giants Infosys and Wipro.

IV. RESEARCH METHODOLOGY

Research methodology adopted is using secondary data from the data and reports published in websites for the years 2012-13, 2013-14 and 2014-15 and thereafter studying of the statements by drawing a comparative of the major components in the financial statements both under IFRS and Indian GAAP statements.

- *Comparison of the IFRS Compiled Financial Statements with Indian GAAP Statements*

As seen in Table 1, for the Profit and Loss statements of the 2 companies, there is an overall negative trend for both Infosys and Wipro, when reporting in IFRS as compared to Indian GAAP numbers. This suggests that profits reported through IFRS are lesser than in IGAAP, while the reverse is applicable for losses. For Infosys, the revenue from operations is same under both the accounting standards but Gross Profit is declining from 16173 crores to 15072 crores i.e by 6.8 percent in 2013 and then in 2015 the decline is by 4.8 percent. Incase of Operating profit the decline is by 9.6 percent in 2013 to 7 percent in 2015. Incase of profit before income taxes decline is 0.4 percent in 2013 to 4.6 percent in 2015. Though incase of Net Profit the decline is very marginal from 0.085 percent in 2013 to 0.35 percent in 2015. And in case of Wipro the same declining trend is visible as the Profit before Income Taxes has declined by 0.12 percent in 2013 to 0.45 percent in 2015 though the net profit has increased by marginal percentage in 2013 and 2015 except of the decline only in 2014. The declining profits when the reporting is done under IFRS can impact the company adversely as it can reduce the share price in the market and also reducing the valuation of the company. The decrease in profits can be attributed to the fact that IFRS stresses on comprehensive income and fair value profits and losses of financial instruments and investments, which is not included in IGAAP procedure. Similarly, the acquisition related cost is presented as related cost under IFRS whereas such costs were reported under cost of investment in IGAAP. Including of such cost leads to decline in profit for the companies under IFRS.

Table I: Profit and Loss Statements of the companies under IFRS and Ind-AS

	IFRS Consolidate INR Crore			Indian GAAP Consolidate INR Crore			Percentage change [(IFRS- GAAP)/GAAP]		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Infosys Limited									
Revenue from operations	53319	50133	40352	53319	50133	40352	0	0	0
Gross Profit	20436	17992	15072	21485	19329	16173	-0.04882	-0.06917	-0.06808
Operating Profit	13832	12041	10429	14871	13381	11533	-0.06987	-0.10014	-0.09573
Profit before income tax	16481.97	17095.79	12746.55	17284	14728	12799	-0.0464	0.160768	-0.0041
Net Profit	12329	10648	9421	12372	10656	9429	-0.00348	-0.00075	-0.00085
Wipro Ltd.									
Revenue from operations	46954.5	43426.9	37425.6	46951	43423.8	37430	0	0	0
Profit before income taxes	11168.3	10100.5	7859.6	11224.1	10114.3	7868.8	-0.00497	-0.00136	-0.00117
Net Profit	8705.9	7840.5	6669.6	8660.9	7947.1	6150.1	0.005196	-0.01341	0.08447

With respect to the Balance sheet for Infosys, the equity and share capital show an increase by 5.2 percent in 2013 (from Rs. 37994 crores in 2013 to Rs. 39987 crores in 2015) to 5.7 percent increase in 2015 when Indian GAAP numbers are converted into IFRS numbers. Incase of Non Current Liabilities the increase is by 14.59 percent in 2013 (from Rs.238 crores in 2013 it is increasing to Rs.273 crores in 2015). This could be attributed to the fact that as per IFRS, equity and share are classified on basis of their substance, while for Indian GAAP more focus on legal aspects is given instead of clear segmentation. It is not mandatory to state change in equity under IGAAP. However as per the IFRS financial statements include statement of change in equity based on total comprehensive income and reconciliation between closing and opening balance. Subsequently, the portion depicting minorities' interest is included under Equity for IFRS while it is included separately for GAAP, which could be the main reason for increased equity value under IFRS. However incase of current liabilities there is a decline when the Indian GAAP numbers are converted into IFRS and the decline on an average is by 23 percent. Incase of non current assets there is an increase by .96 percent in 2013 to decrease by 1.5 percent in 2015. For current assets also though there was an increase by .39 percent in 2015 to a decrease by 2.2 percent in 2015. Incase of Wipro equity and share capital there is an increase by 6.8 percent in 2013 to 9.9 percent in 2015 i.e from Rs. 26681.7 crores in Indian GAAP to Rs. 28498.3 in IFRS in 2013 while in 2015 the Indian GAAP amount was Rs. 37256.6 in Indian GAAP numbers to Rs. 40962.8 in IFRS. Non current liabilities has also increased by 129 percent in 2013 i.e from Rs. 436.8 crores in Indian GAAP to Rs. 1000.7 crores in IFRS. Though there is a decline in the current liabilities by 12.6 percent in 2013 to 15.6 percent in 2015 i.e from Rs.16555.4 crores in Indian GAAP to Rs. 14474 crores in IFRS in 2013 to Rs.19448 crores in 2015 in Indian GAAP numbers to Rs.16402.9 crores in IFRS reporting. Incase of non current assets though there was a decline of 2.8 percent in 2013 but for the year 2015 there has been an increase by 7.9 percent. As for the current assets, there has been an increase by 2.3 percent in 2013 to 1 percent increase in 2015. Liabilities under IFRS although include valuation using fair values (leading to amortization), and also apply the pre-tax discount during value estimation, unlike in GAAP.

Table II: Balance Sheet comparison between IFRS and Ind-AS for the two Companies

	IFRS Consolidate (INR Crore)			Indian GAAP Consolidate (INR Crore)			Percentage change (IFRS-Ind AS)/ Ind-AS		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Infosys Limited									
Equity and Share Capital	53631.16	48212.52	39986.55	50736	44530	37994	0.057063	0.082698	0.052444
Non-Current Liabilities	201.9891	395.0352	272.7224	50	405	238	3.039782	-0.0246	0.145892
Total Current Liabilities	11140	9262.055	6316.25	15503	12031	8099	-0.28143	-0.23015	-0.22012
Total Equity and Liabilities	64973.16	57869.61	46575.52	66289	56966	46331	-0.01985	0.015862	0.005278
Total Non-Current Assets	18754.38	14233.42	11094.35	19047	13888	10988	-0.01536	0.024872	0.009678
Total Current Assets	46218.78	43636.19	35481.18	47242	43078	35343	-0.02166	0.012958	0.00391
Total Assets	64973.16	57869.61	46575.52	66289	56966	46331	-0.01985	0.015862	0.005278
Wipro Ltd.									
Equity and Share Capital	40962.8	34488.6	28498.3	37256.6	32267.4	26681.7	0.099478	0.068837	0.068084
Non-Current Liabilities	2637.6	2126.6	1000.7	1672.2	1822.8	436.8	0.577323	0.166667	1.29098
Total Current Liabilities	16402.9	13615.2	14474	19448	15598	16555.4	-0.15658	-0.12712	-0.12572
Total Equity and Liabilities	60003.3	50230.4	43973	58376.8	49688.2	43673.9	0.027862	0.010912	0.006848
Total Non-Current Assets	16354.1	14761.8	13232.7	15157.8	15043.1	13610.4	0.078923	-0.0187	-0.02775
Total Current Assets	43649.2	35468.6	30740.3	43219	34645.1	30063.5	0.009954	0.02377	0.022512
Total Assets	60003.3	50230.4	43973	58376.8	49688.2	43673.9	0.027862	0.010912	0.006848

V. CONCLUSION

Overall, on comparison of both Profit and Loss Statements and Balance Sheets, it could be seen that IFRS had more significant impact on the Balance sheets as compared to profit and loss of the company. Though profits have declined marginally under IFRS reporting but in the balance sheet there are major changes reflected in the equity share capital and noncurrent liabilities which has increased substantially due to fair value reporting. The increase in the equity share capital is good for the companies as it shows increased worth of the equity shareholders and closer to the market values. But the increase in the noncurrent liabilities and current liabilities would mean that there would be greater outflow of cash for the enhanced liabilities in future for the companies. Though marginally reduced profits is going to make much impact on the valuation and market perception of the company but increased liabilities of the ccompany may adversely impact the company as it can lead to reduced valuation and market perception of the company. However the impact due to transition to IFRS would be only during the transition phase as once the numbers are freezed as per IFRS then it is going to be advantageous for the company as the numbers would be based on fair values on which the investors and shareholders can rely more confidently and so would lead to more stability with respect to the valuation and market perception of the company as it can be expected that the share price of the company in the market would not show much volatility but would be more stable and predictable.

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