Convergence of IFRS & Indian GAAP and their Impact on Financial Position: A Case Study of Wipro Ltd.

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Abstract

The International Financial Reporting Standards is an accounting framework that establishes recognition, measurement, presentation and disclosure requirements relating to transactions and events that are reflected in the financial statements. Reserve Bank of India has stated that financial statements of banks need to be IFRS-compliant for periods beginning on or after 1 April 2011. Single set of accounting standards would enable internationally to standardize and assure better quality on a global screen, it would also permit international capital to flow more freely, enabling companies to develop consistent global practices on accounting problems. This article based upon Impact of IFRS Adoption on financial position of Wipro.

Key Words: Accounting Standard, IFRS, GAAP, Financial Reporting

ACCOUNTING STANDARD

Accounting standards are written / policy documents issued by the government or professional institutes or other regulatory body covering various aspects of recognition, measurement, treatment, presentation and discourse of a accounting transactions in the financial statements. According to T.P Ghosh "Accounting Standards are the policy documents issued by the recognized expert accountancy body relating to various aspects of measurement, treatment and disclosure of accounting transactions and events." These standards guides and standardizes accounting practices. The Generally Accepted Accounting Principles (GAAP) are a group of accounting standards that are widely accepted as appropriate to the field of accounting. Accounting standards are necessary so that financial statements are meaningful across a wide variety of businesses; otherwise, the accounting rules of different companies would make comparative analysis almost impossible.

INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS)

International FINANCIAL Reporting Standards (IFRS) are designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. They are a consequence of growing international shareholding and trade and are particularly important for companies that have dealings in several countries. They are progressively replacing the many different national accounting standards. The rules to be followed by accountants to maintain books of accounts which is comparable, understandable, reliable and relevant as per the users internal or external.

In everyday usage, the term 'International Financial Reporting Standards' (IFRSs) has both a narrow and a broad meaning.

Narrowly, IFRSs refers to the new numbered series of pronouncements that the IASB is issuing, as distinct from the International Accounting Standards (IASs) series issued by its predecessor.

Broadly, IFRSs refers to the entire body of IASB pronouncements, including standards and interpretations approved by the IASB and IASs and SIC interpretations approved by the predecessor International Accounting Standards Committee.

HISTORY OF IFRS

In 1973, an organization known as the International Accounting Standards Committee (IASC) was formed to address the need for standards that could be used by smaller nations in creating their own accounting standards. This group was succeeded by the International Accounting Standards Board (IASB) in 2001. The IASB is based in London and is the private sector standard setting body for non-government and not-for-profit entities. All fifteen members are selected based on technical skills and background from many different countries. One of the challenges facing the conversion to IFRS is ensuring that the IASB has a stable source of funds for the future. The primary purpose of the IASB is to promulgate IFRS. The governance structure is very similar to the Financial Accounting Standards Board (FASB) in the United States. The IASB reports directly to the IASC Foundation. The sitting IASB Chair is Sir David Tweedie and the sitting IASC Foundation Chair is Gerrit Zalm.

As a result of growth of global markets, the desire of multinational companies for one set of financial statements, and the demand for one common global reporting language, the FASB and the IASB issued the Norwalk Agreement in 2002. This agreement marked their commitment to develop a single set of high quality standards that would decrease cost, increase efficiency and provide better information for investors. Beginning in 2005, the European Union required its listed companies to prepare consolidated financial statements under IFRS. During 2006, the FASB and the IASB embarked on a number of joint major projects. Two actions by the Securities and Exchange Commission (SEC) during 2007 accelerated the timeframe of potential conversion from GAAP to IFRS. In November, an SEC Final Release allowed foreign filers in the U.S. to prepare for submission financial statements in accordance with IFRS without reconciliation to GAAP. A Concept Release was then issued in December by the SEC seeking feedback on allowing all U.S. public companies the option of using IFRS instead of GAAP. When the AICPA Council updated Rule 203 of the Code of Professional Conduct in May of 2008 to recognize the IASB as an international accounting standard setter, all private companies and not-for-profit entities were given the option of following IFRS.

IFRS, as it is known today, consists of nine IFRS and forty-one IAS, of which some have been superseded. As with the FASB, a strict code of due diligence is employed during the promulgation process. When IASB considers issuing a new standard, they often use previous

FASB debates on the same topics. Today, more than 12,000 companies in almost a hundred countries have adopted IFRS. These countries either require or permit IFRS as the basis for financial statement preparation by public companies. Most of the countries have local standards that are based on IFRS. Those countries that have adopted IFRS include Australia, New Zealand, Israel, Canada, and the European Union states. Japan has adoption efforts underway for the near future.

OBJECTIVES OF IFRS

The objectives of IFRS are:

- To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;

- To promote the use and rigorous application of those standards

- In fulfilling the objectives associated above , to take account of, as appropriate, the special needs of small and medium sized entities and emerging economies; and

- To bring convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

- To develop a single set of high quality, understandable and enforceable global accounting standards that will form the stable platform for international accounting

- The correct adoption of International Financial Reporting Standards will bring more transparency and a higher degree of comparability, both of which promise many benefits for the organizations as well as economies

LITERATURE REVIEW

Various Studies have been done in the flied of IFRS across the Globe. These Studies have identified that there are Significant difference in financial position of corporate Obtained from IFRS based financial Statement and domestic Based financial statement (Jermakowicz,2004, petreski2006 o Connell and Sullivan, 2009, stententai, 2010 and nagale and Bapat, 2013) . Aisbitt (2006) and cordozzo(2008) Showed that IFRS adoption will have a greater impact on net income of corporate. Implementation of IFRS has indicated decrease in cost of capital and increase in Equity valuation. Various studies showed that IFRS is fair value based and is more transparent than Indian GAAP, which is conservative.

OBJECTIVE OF THE STUDY

1. To find out convergence in IFRS and Indian GAAP.
2. To discuss impact of IFRS adoption on WIPRO

Data
This study is based on secondary data

Methodology
1. Financial position of company are tested using two parameters
   - Liquidity
   - Profitability
2. Few other parameters has also calculated which have impact on profitability.

1. Liquidity : Quick ratio is taken as a parameters for liquidity of company
Quick ratio measures the ability of a company to use its near cash or quick assets to extinguish or retire its current liability immediately. Quick assets include those assets that presumably can be quickly converted to cash at close to the book values. A company with quick ratio of less than 1 cannot currently fully back its current liabilities.

Quick ratio= C.A- Inventory/ C.L

2.Profitability: Return on Equity has been used for determine profitability of the company.

The amount of net income returned as a percentage of shareholders equity. Return on eqity measures a corporation's profitability by revealing how much profit a company generated with money shareholders have invested.

Return on Equity= Net income- Pref. Dividend/Shareholder's Equity

Table-1: Comparative Study of Indian GAAP and IFRS GAAP

SUBJECT	IFRS	INDIAN GAAP
First time adoption	Full retrospective application of IFRS to PL and BS. Reconciliation of PL and BS in Respect of last year reported Numbers under previous GAAP.	No needs to prepare reconciliation on first time adoption
Components of Financial Statements	Comprises of Balance sheet, Profit and Loss A/c. Cash flow Statement, changes in Equity and accounting policy and notes to Accounts	Comprises of Balance sheet, Profit and Loss A/c. Cash flow Statement (if applicable), and Notes to Accounts
Balance Sheet	No particular format, a current/ non current presentation of Assets and liabilities is used.	As per Format Prescribed in Schedule VI for Companies, Adherence to Banking Regulation For Banks etc.
Income Statement	No particular format Prescribed (IAS-1)	As per Format Prescribed in Schedule VI (AS-1)
Cash Flow Statement	Mandatory for all entities (IAS-7)	Level 3 entities are exempted (AS-3)
Depreciation	Over the useful life of the asset. (IAS-16)	Over the useful life of the asset, or schedule xiv rates, whichever is higher (AS-10)
Dividends	Liability to be recognized in the Period when dividend is Declared. (IAS-10)	Recognized as an appropriation against the Profit, and recorded as liability at B/S date even if declared Subsequent to reporting period But before the approval of Financial statements (AS-4)
Cost of major repairs and overhaul expenditure on fixed assets	Recognized in carrying amount of the assets (IAS-16)	Expensed off. Only expenses, which increases the FEB are to be capitalized. (AS-10)
Revaluation	Revaluation (if done) to be updated periodically so that carrying amount does not differ from fair value at the end period. Revaluation to be done for entire class of assets (IAS-16)	No specific requirement for Revaluation. Revaluation can be done on systematic basis like for one location leaving aside the assets of other location. (AS-10)
Change in the method of depreciation	Considered as a change in Accounting estimate. To Be Applied prospectively. (IAS-16 and IAS 8)	Considered as change in Accounting policy, retrospective Computation and excess or deficit is adjusted in same Period. Required to be Disclosed(AS-6)
Earnings per share	Disclosure to be made in only consolidated financials of the Parent Co. (IAS-33)	Disclosure of EPS in both Consolidated and separate Financials. (AS-20)
Component accounting	Required each major Property Plant Equipment with a cost that is significant in relation to total Cost, should be depreciated separately (IAS-16)	No such requirement (AS-10)
Intangible assets	Intangible assets can have indefinite useful life and hence	There is no concept of indefinite useful life. Assets have definite

	such assets are tested for impairment and not amortized.	life. (usually 10 years)
Reporting currency	Requires the measurement of Profit using the functional Currency. Entities may, however, Present financial statements in a different currency. (IAS-21)	Schedule VI to the Companies Act, 1956 specifies Indian rupees as the reporting currency. (AS-11)
Key management personnel (KMP)	Includes Executive as well as non executive directors (IAS-24)	Excludes non executive Directors. (AS-18)
Compensation to KMP	Disclosure to be made for total Compensation such as short term employee benefits and post employment benefits	AS-18 does not require the Break up of compensation Cost.
Fringe Benefits Tax	Included as part of related Expense (fringe benefit) which gives rise to incurrence of the Tax.	Disclosed as a separate item after profit before tax on the face of the income statement.
Uniform accounting policies	Prepared using uniform Accounting policies across all entities in a group. (IAS-27)	Policies may differ due to impracticability. (AS-21)
Disclosure of extra ordinary items	Prohibits such disclosure (IAS-1). No such term in IFRS	Disclosure to be made in Notes (AS-5)

RESULT AND DISCUSSIONS

Table-2: Effect of IFRS on Ratios (Wipro Ltd.)

Ratio	**Indian GAAP**				**IFRS GAAP**			
	2014	**2013**	**2012**	**2011**	**2014**	**2013**	**2012**	**2011**
Quick Ratio	**2.20**	**1.79**	**1.906**	**1.85**	**2.59**	**2.10**	**2.23**	**2.21**
Return On Equity	**0.25**	**0.23**	**0.21**	**0.23**	**0.23**	**0.23**	**0.19**	**0.19**

The result reveals that there is no improvement in the financial position due to IFRS adoption.

Table-3: Reconciliation of Profit under IFRS and Indian GAAP (Rs. In Million)

	Notes	Fiscal 2010	Fiscal 2009
Profit after tax as per Indian GAAP		46,310	38,999
Intangible asset amortization	A	(259)	(43)
Difference in revenue recognition norms	B	26	(32)
Stock Compensation Expense	C	15	(101)
Others	D	(21)	(75)
Tax adjustments		(140)	13
Net Income as per IFRS		45,931	38,761

Source: Annual Report of Wipro, 2010,p153.

[A]. Under IFRS, a portion of the purchase consideration in a business acquisition is allocated to intangible assets which meets the criteria for being recognized as an asset apart from goodwill. These intangible assets are amortized over their useful life in proportion to the economic benefits consumed in each reporting period. The increase in intangible amortization is primarily due to acquisition of CITI Technologies in fiscal 2009.

[B]. Under IFRS, revenue relating to product installation services is recognized when the installation services are performed. Under Indian GAAP, the entire revenue relating to the supply and installation of products is recognized when products are delivered since installation services are considered to be incidental / perfunctory to product delivery and the cost of installation services is also accrued upon delivery of the product.

[C]. Under IFRS, the Company amortizes stock compensation expense relating to share options which vest in a graded manner on an accelerated basis, as compared to straight-line basis under Indian GAAP.

Also under IFRS, the stock compensation expense is recognized net of expected attrition as compared to Indian GAAP, where stock compensation expense is reversed for options which do not vest due to attrition at actual.

[D]. This includes difference in accounting for certain foreign currency forward contracts and basis of interest capitalization under IFRS and Indian GAAP.

CONCLUSION

The accounting framework in India is deeply affected by laws and regulations. Changes may be required to various regulatory requirements under the Companies Act, 1956, Income Tax Act, 1961, SEBI, RBI, etc. so that IFRS financial statements are accepted globally. This is the main reasons for not adopting IFRS in India. Still there are various companies in India which prepares their financial statement according these standards. The IFRS, which mandates extensive disclosures, is considered a more credible tool for accounting in future.

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