

A Comparative Study on Financial Reporting under Indian GAAP and Ind AS

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Abstract

Due to the globalization of financial market IFRS has become an integral part of today's business. In India, IFRS was introduced through Ind AS in a phased manner. Dual reporting practices are followed in India for the purpose of corporate reporting. The main purpose of this study is to analyse the comparative positions of the select companies based on financial statements under the IGAAP and Ind AS. For analysis purpose, the financial statements of five selected companies prepared as per IGAAP and Ind AS have been considered. Different components of Profit & Loss statement and Balance Sheet were analyzed by using the Gray comparability index to evaluate the relative effect. The present study is a desk based analytical descriptive study. The study found that in most cases Ind AS based practices has no significant effect on the Profit & Loss statement and Balance Sheet in comparison to IGAAP.

Key-words: Financial Reporting, IFRSs, IGAAP, Ind ASs

1. Introduction

Emerging economies like India is gradually integrating with advanced economies through cross-border trade and investments and all this has been possible due to globalization. Since the formation of WTO, money, as an investment, is the most fungible asset which flow freely across national boundaries. So, the regional accounting standards (languages) are no more justified as the shareholders are no more limited within the jurisdiction of respective sovereign countries but spread across the continents. Hence, for better understanding and to enhance the transparency and comparability of financial reports, which enable users to take appropriate decisions, there was felt an urgent need for widely accepted, high quality financial reporting. This lead to the requirement of harmonization of Accounting Standards or moving towards a global Accounting Standards which are better known as International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) and comprises of International Accounting Standards (IAS) issued by International Accounting Standards Board, International Financial Reporting Standards (IFRSs), Interpretations issued by Standing Interpretations Committee (SIC) and International Financial

Reporting Interpretations Committee (IFRIC). The use of a single set of high quality accounting standards would facilitate investment and other economic decisions across borders, increase market efficiency, and reduce the cost of raising capital.

“International Financial Reporting Standards (IFRS) is a set of globally acclaimed principle based standards of financial reporting issued by the International Accounting Standards Board (IASB). In these principles based financial reporting standards, accounting treatment follows from the definition of an accounting element and classification thereof. In rule based reporting standard, various exceptions are attached to achieve a standardised practice but accounting measurement would widely deviate from the substance of the transaction” (Ghosh,2016)

IFRSs are promulgated by the IASB, an international standard-setting body based in London. The IASB places emphasis on developing standards based on sound, clearly stated principles, from which interpretation is necessary (sometimes referred to as *principles-based standards*). This contrasts with sets of standards, like generally accepted accounting principles (GAAP), which contain significantly more application guidance. These standards are sometimes referred to as rules-based standards)(According to one school of thought, since IFRS are primarily principles-based standards, the IFRS approach focuses more on the business or the economic purpose of a transaction and the underlying rights and obligations instead of providing prescriptive rules (or guidance).IFRS provides guidance in the form of principles.¹

Approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies, although approximately 90 countries have fully conformed to IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports.²

All the countries which has converged their accounting standards as per IFRSs may found an impact on the financial reporting. Financial reporting in India is converging into IFRS from Indian GAAP (IGAAP) through Indian Accounting Standards (Ind ASs) in a phased manner. Therefore this research paper tries to examine the impact of the convergence of IFRSs on the financial reporting of some Indian companies which are already using Ind ASs for financial reporting.³

2. IFRS: Global Scenario

As we are living in a global village, no national border can create a great restriction on capital flight between any two different nations. Companies (including small companies) seek capital at the best price wherever it is available. Investors and lenders seek investment opportunities wherever they can get the best returns commensurate with the risks involved. To assess the risks and returns of their various investment opportunities, investors and lenders need financial information that is relevant, reliable and comparable across borders. The amounts of cross-border investment are enormous.

¹ Nandakumar, A. J. Mehta, Kalpesh. Ghosh, T.P. and Alkafaji, Yass A. (2010) *Understanding Fundamentals IFRS International Financial Reporting Standards*. John Wiley & Sons, Inc., Hoboken. New Jersey.

² Pacter, P. (2017). *Guide to IFRS Standards - The global financial reporting language*. IFRS Foundation. United Kingdom.

³ *Concept paper on IFRS, US GAAP, IND AS, and Indian GAAP: similarities and differences – PWC*

The use of one set of high-quality standards by companies throughout the world improves the comparability and transparency of financial information and reduces financial statement preparation costs. When standards are applied rigorously and consistently, capital market participants receive higher quality information and can make better decisions. Thus, markets allocate funds more efficiently and firms can achieve a lower cost of capital.

IFRS Standards constitute a globally recognised set of standards for the preparation of financial statements by business entities. IFRS Standards prescribe the items that should be recognised as assets, liabilities, income and expenses; how to measure those items; how to present them in a set of financial statements; and related disclosures about those items.

It has been witnessed a continued progress in both the improvement of IFRS Standards and global adoption of those Standards. So far 17 IFRS, 26 IAS, 19 IFRIC, 8 SIC has been implemented. It has been found that a growing number of jurisdictions requiring the use of IFRS Standards.

Out of 150 jurisdictions together they represent around 98 per cent of the world's gross domestic product (GDP) studied 126 (84 per cent) require IFRS Standards for all or most domestic listed companies and financial institutions. Another 13 jurisdictions (9 per cent) permit or require the use of IFRS Standards for at least some of those entities. 27,000 of the 49,000 companies listed on the 88 largest securities exchanges in the world use IFRS Standards. 90% of the companies that don't use IFRS Standards are in China, India, Japan and the United States.⁴

Hans Hoogervorst, Chairman, International Accounting Standards Board (April 2017) said that *“It is fair to say that considering IFRS Standards to be the global framework for financial reporting is more than a vision. It is a reality today. Moreover, the quality of those Standards has been validated by a decade of use by markets in both advanced and developing economies, and by national and regional studies including those conducted recently in the European Union, Canada, Korea and Australia.”*

3. IFRS in India

India has not adopted IFRS Standards rather adopted Indian Accounting Standards (Ind AS) that are based on and substantially converged with IFRS Standards as issued by the IASB. The ICAI prepares an exposure draft of the Ind AS on the basis of IFRS Standards. After considering comments, the proposed final Ind AS is approved by the ICAI Council and then adopted by the Ministry of Corporate Affairs via public notification.

Ind AS are IFRS Standards as issued by the Board with some modifications, including changes of terminology; elimination of options, addition of disclosures; elimination of disclosures that are considered to be contradictory to local law, elimination of other disclosures, addition of presentation requirements, addition of (and, in some cases, deletion of) examples and modifications of principles for recognising assets, liabilities, income and expenses. Some of those modifications are mandatory, and some are optional. Each individual Ind AS contains an Appendix that explains the modifications.⁵

All companies, including unlisted companies, are permitted to use Ind AS for accounting periods beginning on or after 1 April 2015. Ind AS is being phased in for listed companies (other than those on

⁴ <https://www.ifrs.org/>

⁵ *Concept Paper on Convergence with IFRS in India - The Institute of Chartered Accountants of India*

the SME Exchange) and large unlisted companies in 2016 and 2017. Companies that do not use Ind AS will continue to apply existing Accounting Standards (IGAAP). Some companies may voluntarily provide investors with IFRS financial statements in addition to preparing Ind AS financial statements.⁶

On 18 January 2016, the Government of India announced that commercial banks, insurance companies, and non-bank companies will be required to prepare their financial statements using Ind AS starting 1 April 2018.

4. Review of Literature

Kantayya & Panduranga (2017) did a comparative study of Balance Sheets prepared under Indian GAAP and IFRS on select IT Companies. Findings of the study revealed that there are quantitative differences in the Balance sheet items (viz. total assets, total liabilities and total equity) of Infosys Limited and Wipro Limited prepared under Indian GAAP and IFRS.

Achalapathi & Sireesha (2015) analysed the impact of IFRS adoption through key financial ratios on the stability, liquidity, profitability and valuation of the select 10 Indian companies which have adopted IFRS voluntarily. Gray's Comparability Index is applied for measuring the relative impact of IFRS adoption on financial ratios of select companies. The study revealed significant differences between Indian GAAP-based and IFRS-based financial ratios and the IFRS adoption has led to statistically significant increase in liquidity, profitability and valuation ratios.

Shukla (2015) investigated the impact of IFRS adoption on financial activities of Indian companies with a sample of ten companies. The study has revealed that there is no significant improvement in financial risk, investment activities, operating activities and debt covenant. In other words, there is no significant change in financial activities due to adoption of IFRS.

Kamath and Desai (2014) investigated the impact of IFRS adoption on financial activities. A sample of eight Indian companies have been selected which have published their financial statements under Indian GAAP and IFRS. The study focused on four most important areas of financial activity, investment activities and operating activities. The results revealed that there is quantitative increase in investment and operating activities due to IFRS adoption. On the other hand, no such improvement is observed in financial activities.

Bhargava and Shikha (2013) analysed the impact of IFRS on financial statements and some significant ratios of Wipro Ltd. The consolidated financial statements as per GAAP are compared with the consolidated financial statements under IFRS. It is found that the variation in total assets and liabilities is because of the reclassification among equity and liability and also because of the difference in the concept of revenue recognition. It is emphasized that IFRS is a fair value principle based accounting which will improve quality of disclosure and enhance international comparability and understanding of financial statements.

Yadav (2012) studied the impact of adoption of IFRS, challenges that will come up and its adoption procedure in India. He found that transition from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is

⁶ *Companies (Indian Accounting Standards) Rules, 2015*

strongly recommended. This transition is not without difficulties as to the proper implementation process which would require a complete change in formats of accounts, accounting policies and more extensive disclosure requirements.

Swamynathan & Sindhu (2011) examined the impact on financial statements in convergence to IFRS from Indian GAAP. It is observed that the net income position in IFRS reporting and Indian GAAP is not much different. But there are differences between Equity and Total Liability. The return on equity, return on asset, total asset turnover and net profit ratio are not significantly affected by converging to IFRS but the leverage ratio has shown significant change on convergence with IFRS. The study concluded that IFRS is a fair value oriented and Balance Sheet oriented accounting where there are more transparent disclosures and Indian GAAP is a conservative approach.

5. Research Gap

From the review it has been found that the various studies have been conducted comparative analysis on the financial reporting practices under the IGAAP and voluntarily published financial report under IFRS on the company. But not much work has been done so far on the comparative analysis on the financial reporting practices under IGAAP and Ind AS i.e. standards converged with IFRS. So, there a clear research gap has been identified.

6. Objective

The study attempts to examine the impact of the convergence of IFRSs on the financial reporting of some select Indian companies.

7. Database and Methodology

The study is exploratory and empirical in nature. For the exploratory part relevant data and information have been collected from published literature like books, journals, articles, reports; regulatory rules formulated by authoritative bodies; news and feature articles published in financial dailies, finance-based magazines and periodicals.

For empirical analysis, all the IT industry companies viz., HCL Technologies Ltd. (HCL), Infosys Ltd. (Infosys), Tata Consultancy Services Ltd. (TCS), Tech Mahindra Ltd. (Tech Mahindra), Wipro Ltd. (Wipro), forming the NSE-NIFTY 50 index, have been selected as sample of the study. For analyzing, Gray's Comparability Index (GCI) has been used. Necessary secondary data for this purpose have been collected from the published annual reports of the sample companies. The study has been made on the financial position as on 31st March, 2016.

8. Analysis and Findings

In this paper, the quantitative changes have been examined in financial reporting due to the changes in accounting standard. 5 listed Indian companies (companies) have been selected from the IT industry belonging to Nifty 50 Index to conduct this study. Before the period, financial year starting from 1stApril, 2016, companies prepared their financial report in compliance with the Indian GAAP (IGAAP). The financial year starting from 1stApril, 2016 and onwards all the Indian companies either listed or unlisted having net worth of rupees five hundred crore or more need to prepare their financial report under the Indian Accounting Standards (Ind AS). So, the financial reports for the financial year ending on 31st March, 2016 are available under both IGAAP and Ind AS (since the financial year ending

on 31st March, 2017 requires the previous year's figures for comparison purpose, the figures as on 31st March, 2016 need to be restated under Ind AS). The consolidated financial statements as per IGAAP are compared with the consolidated financial statements under Ind AS. The figures in the Balance Sheet and the Profit and Loss statements have been completely drawn from the annual reports of the company. All figures are related to the period ending 31st march 2016.

Gray's Comparability Index (GCI) is applied to the key elements of financial statements such as assets, liabilities, equities and profit prepared under IGAAP and Ind AS. This is an Index which was proposed by Gray in 1980 to quantify the impact of different accounting practices by means of Conservatism Index.

The following formulae are used.

The Index is calculated as under:

$$\text{Total Comparability Index of Non-Current Assets (NCA)} = 1 - \frac{\text{Total NCA (Ind AS)} - \text{Total NCA (IGAAP)}}{\text{Total NCA (Ind AS)}}$$

$$\text{Total Comparability Index of Current Assets (CA)} = 1 - \frac{\text{Total CA (Ind AS)} - \text{Total CA (IGAAP)}}{\text{Total CA (Ind AS)}}$$

$$\text{Total Comparability Index of Total Assets} = 1 - \frac{\text{Total Assets (Ind AS)} - \text{Total Assets (IGAAP)}}{\text{Total Assets (Ind AS)}}$$

$$\text{Total Comparability Index of Total Equity} = 1 - \frac{\text{Total Equity (Ind AS)} - \text{Total Equity (IGAAP)}}{\text{Total Equity (Ind AS)}}$$

$$\text{Total Comparability Index of Total Non-Current Liabilities (NCL)} = 1 - \frac{\text{Total NCL(Ind AS)} - \text{Total NCL (IGAAP)}}{\text{Total NCL (Ind AS)}}$$

$$\text{Total Comparability Index of Total Current Liabilities (CL)} = 1 - \frac{\text{Total CL(Ind AS)} - \text{Total CL (IGAAP)}}{\text{Total CL (Ind AS)}}$$

$$\text{Total Comparability Index of Total Equity and Liabilities} = 1 - \frac{\text{Total Equity and Liabilities(Ind AS)} - \text{Total Equity and Liabilities(IGAAP)}}{\text{Total Equity and Liabilities(Ind AS)}}$$

$$\text{Total Comparability Index of Total Income} = 1 - \frac{\text{Total Income(Ind AS)} - \text{Total Income(IGAAP)}}{\text{Total Income(Ind AS)}}$$

$$\text{Total Comparability Index of Total Expenses} = 1 - \frac{\text{Total Expenses (Ind AS)} - \text{Total Expenses (IGAAP)}}{\text{Total Expenses (Ind AS)}}$$

$$\text{Total Comparability Index of Profit before tax (PBT)} = 1 - \frac{\text{PBT(Ind AS)} - \text{PBT(IGAAP)}}{\text{PBT(Ind AS)}}$$

The benchmark used in the study is Ind AS for examining the accounting impact on the elements of the statements of financial positions of the transition from the Indian GAAP to Ind AS. The

Total Non-Current assets, total current assets, total assets, total equities, Total Non-Current Liabilities, Total Current Liabilities, Total Equity and Liabilities, Total Income, Total Expenses, Profit before tax

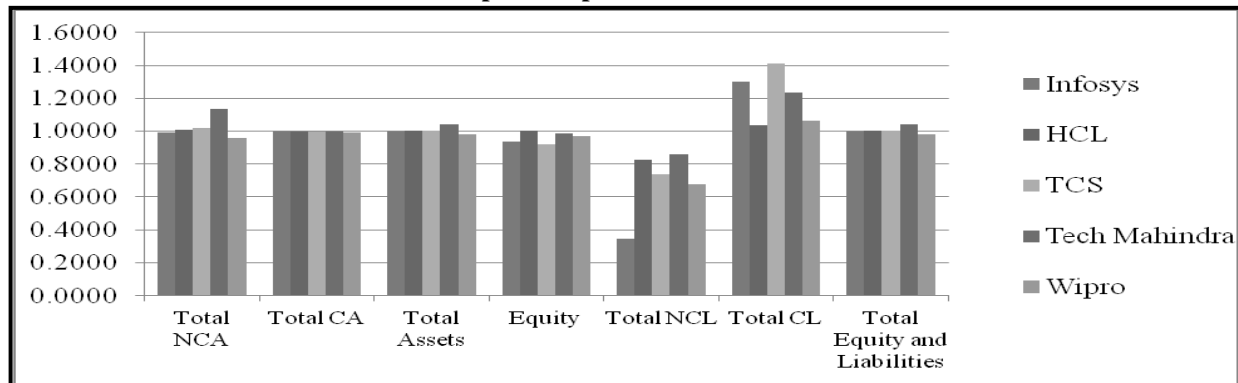
reported under Ind AS are taken as denominators in order to assess the impact of Ind AS on Indian financial statements. The neutral value of the index is one, implies that there is no quantitative change/impact (increase or decrease) situation on the Indian GAAP by Ind AS. An index that is greater than one implies that the assets, liabilities, equity, income, expenses and profit are higher under IGAAP than what were reported under Ind AS. Conversely, an index that is less than one suggests that the assets, liabilities, equity, income, expenses and profit are lower under IGAAP than that what were reported under Ind AS. But, this index does not show whether the difference obtained is statistically significant or not.

Table 1: Company wise Gray’s Comparability Index (GCI) on major financial elements in financial report

	Total NCA	Total CA	Total Assets	Equity	Total NCL	Total CL	Total Equity and Liabilities	Total Income	Total Expenses	Profit before tax
Infosys	0.9911	1.0000	0.9972	0.9365	0.3433	1.2984	0.9972	1.0001	0.9950	1.0128
HCL	1.0087	0.9951	1.0001	1.0002	0.8260	1.0337	1.0001	0.9898	0.9896	0.9978
TCS	1.0168	0.9977	1.0032	0.9221	0.7362	1.4115	1.0032	0.9997	1.0017	0.9948
Tech Mahindra	1.1357	0.9973	1.0436	0.9855	0.8582	1.2343	1.0436	1.0044	0.9980	1.0415
Wipro	0.9592	0.9922	0.9823	0.9686	0.6794	1.0640	0.9823	1.0019	1.0016	1.0027

Comparing the GCI of the Balance Sheet items it has been found there is no significant quantitative change in total current assets and equity since the GCI score for all the companies are close to 1. It has been also found that except the GCI of total non-current assets of Tech Mahindra all the other company’s GCI of total non-current assets is near to zero indicate no significant change under IGAAP and Ind AS. It is due to the interest amount in Trust under the head “investment”, which has been depicted under IGAAP reporting but not disclosed under Ind AS, the non-current assets amount of Tech Mahindra Company has been decreased under Ind AS from IGAAP.

Graphical representation of GCI



Another reason for difference is fair value based valuation of the “Property, Plant and Equipment” under Ind AS. At the time of examining the difference under the head non-current liabilities it has been identified that a few reasons e.g. accounting for deferred taxes under IGAAP is fundamentally very different compare to Ind AS, discounting on provision is not permitted in Ind AS, contingent asset is not disclosed in the financial statement in Ind AS, reclassification of items, etc.

Graphical representation of GCI



It has been witnessed from the study that there is no such significant quantitative change in Profit and Loss Statements’ items like total income, total expenses, and profit before tax under both IGAAP and Ind AS since the GCI for all the items for all the companies are very close to zero.

9. Conclusion

There is no such significant quantitative change in Profit and Loss Statements’ items like total income, total expenses, and profit before tax due to changes in accounting reporting practices from IGAAP based reporting to converged with IFRS i.e. Ind AS based reporting. It is found from the study that there is no significant quantitative change in total current assets, total non-current assets and equity from IGAAP based reporting to Ind AS based reporting except a few situations due to some reclassification provisions. Accounting treatment for taxes, discounting on provision, contingent asset may be the reason for the difference under the head non-current liabilities from IGAAP reporting to Ind AS. It is found that the variation in total assets and liabilities is because of the reclassification among equity and liability and also because of the difference in the concept of revenue recognition.

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www.wipro.com

www.hcltech.com

www.tcs.com

www.techmahindra.com

Annexure -1

	Infosys			HCL			TCS			Tech Mahindra			Wipro		
	31st March, 2016			31st March, 2016			31st March, 2016			31st March, 2016			31st March, 2016		
	IGA AP	Ind AS	GC I	IGA AP	Ind AS	GC I	IGA AP	Ind AS	GC I	IGA AP	Ind AS	GC I	IGA AP	Ind AS	GC I
Total NCA	23388	23597	0.9911	14483.51	14358.9	1.0087	26316.99	25883	1.0168	8561.9	7538.6	1.1357	20850.8	21736.7	0.9592
Total CA	51753	51753	1.0000	24860.16	24981.7	0.9951	63067.39	63213	0.9977	14945.1	14986.1	0.9973	49892.2	50282.5	0.9922
Total Assets	75141	75350	0.9972	39,343.67	39,340.60	1.0001	89,384.38	89,096.00	1.0032	23,507.0	22,524.70	1.0436	70,743.0	72,019.2	0.9823
Equity	57826	61744	0.9365	27,605.80	27,601.43	1.0002	65862.79	71427	0.9221	14569.7	14783.6	0.9855	44,911	46,366	0.9686
Liability															
Total NCL	126	367	0.3433	1578.19	1910.72	0.8260	1546.08	2100	0.7362	750.9	875	0.8582	2583.2	3802.1	0.6794
Total CL	17189	13239	1.2984	10159.68	9828.45	1.0337	21975.51	15569	1.4115	6956	5635.7	1.2343	23248.8	21851.1	1.0640
Total Equity and Liabilities	75141	75350	0.9972	39,343.67	39,340.60	1.0001	89384.38	89096.00	1.0032	23507.0	22524.70	1.0436	70743.0	72019.2	0.9823
Total Income	65569	65564	1.0001	31,676.24	32,002.07	0.9898	111700.08	111730	0.9997	27050.8	26933.6	1.0044	54096.5	53996.2	1.0019
Total Expenses	46587	46821	0.9950	24,707.10	24,966.15	0.9896	80024.21	79890	1.0017	23,033.90	23,079.50	0.9980	42571.8	42502.5	1.0016
Profit before tax	18979	18740	1.0128	7,025.34	7,040.68	0.9978	31675.87	31840	0.9948	4,016.90	3,856.70	1.0415	11524.7	11493.7	1.0027
Profit for the period	13678	13489	1.0140	5,661.45	5,601.68	1.0107	24291.94	24338	0.9981	3118	3026.6	1.0302	8,959.7	8,957.1	1.0003
Total other comprehensive income					127.76			269			236.8			270.8	
Total comprehensive income		13780			5,729.44			24607			3263.4			9,227.9	

Figures(in crore) compiled from the Annual Reports.