

A COMPARITIVE STUDY ON INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INDIAN ACCOUNTING STANDARDS

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Abstract : The globalization process of the world's economy and markets led companies and nations to become world global players and more investments take place on a global level. Accounting standards are essential so that the financial statements will fairly and consistently describe financial performance and soundness of any firm worldwide. The project shows an outcome of the convergence, adoption, compliances divergences between the INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) and INDIAN ACCOUNTING STANDARDS .The study was carried out for the period of 3 years (2015 – 2018) and the two different companies used for the analysis are Infosys Ltd., and Wipro Ltd.,The international accounting principles and the Indian GAAP are the tools used to portray the financial soundness of these firms.

IndexTerms - Ind-AS with IFRS, Indian IT companies.

I. INTRODUCTION

Accounting standards in general deals with the recognition of events and transactions in the financial statements. It is the measurement of these transactions and events. Accounting standards standardize the diverse accounting policies all around the world. Thus, all the standard policies are intended to reflect a consensus on accounting policies to be used in different areas such as inventory valuation, depreciation and amortization.

II. OBJECTIVES

- To compare, in detail, the INDIAN ACCOUNTING STANDARDS(Ind-AS-07, Ind-AS-33) with the IFRS.

III. RESEARCH METHODOLOGY

A research methodology involves specific techniques that are adopted in research process to collect, assemble and evaluate data. It defines those tools that are used to gather relevant information in a specific research study. It is the systematic investigation into and study of materials and sources in order to establish facts and reach new conclusions

Tools used for the analysis

1. Indian Accounting Standards(Ind-AS)
2. International Financial Reporting Standards(IFRS)

The above tool is used for the study.

IV. LIMITATIONS OF THE STUDY

1. The data used for the study is from secondary sources so that the accuracy may lack in this case.
2. The study is confined to only 5 years of data that has been used for the fundamental analysis.

V. REVIEW OF LITERATURE

Ameya Patil and et al. (2017), described that “Research studies have been carried out to find out to the adoption of IFRS results in increased confidence of foreign investors and hence, increased foreign investments, especially in developing countries. In this regard, adoption of IFRS will help companies to produce more credible financial statements, which will invariably boost investors’ confidence and attract cross border financial transactions, resulting in a greater economic growth. Studies conducted by Ghosh T.P., Singh Balwinder and Raman A. N. have stressed the need of IFRS standards for financial reporting purposes. They have also suggested the roadmap for convergence from country specific accounting standards to global accounting standards. Also, many research studies have carried out the cost-benefit analysis related to IFRS adoption and these studies have concluded that the benefits achieved through IFRS adoption certainly outweigh the costs associated with the same.

Mukti Bapna (2017), stated that Indian business firms are presenting financial statements in different format as per requirement of countries. It will become cumbersome to make different format. The introduction of IFRS solved this problem as IFRS is a common financial language for business affairs around the world. IFRS is understandable and comparable across globe. In the modern era of globalization in which Indian economy has also bloomed, adopting IFRS would make Indian business at par with other global business and increase the scope of foreign investment in Indian market. India also decided to converge with IFRS by developing a standard called IndAS. This paper explains the applicability of IFRS, upcoming challenges and its adoption in India. It also discusses the implementation and prospects of IndAS in India.

VI. ANALYSIS AND INTERPRETATION

1. CASH FLOW STATEMENT-07

Ind-AS	IFRS
1.PRONOUNCEMENT:	
Ind-AS-07 deals with cash flow statements	IAS-07 deals with cash flow statements
2..NATURE:	
Mandatory for all the companies but the act also specifies a following companies which are exempted from preparing CFS, A) One person company B)Small company C)Dormant company	CFS is a basic financial statement as per IAS 1
3.PRESENTATION OF OPERATING CASH FLOW:	
Allows use of either direct or indirect method. SEBI requires use of indirect method for listed enterprises.	Allows a choice between direct and indirect method
4.REPORTING CASH FLOW PER SHARE:	
Gives no guidance on this.	Gives no guidance on this.
5.DEFINITION OF CASH AND CASH EQUIVALENT:	
Cash includes deposits payable on demand and cash equivalent includes short term, highly liquid investments readily convertible to cash. Bank borrowings are generally considered as financing activities.	Cash includes overdrafts and cash equivalent with short term maturities.
6.INTEREST AND DIVIDEND RECEIVED:	
Investing activity	Operating or investing activity

Thus the difference of presentation of cash flows, interest and dividend transactions, its nature, and exemptions are also analysed in detail under Ind-AS, IAS-07

(table:1.1)Cash flow statements of Wipro limited

Particulars	2018		2017		2016	
	Ind-AS	IFRS	Ind-AS	IFRS	Ind-AS	IFRS
Profit of the year*	80031	80084	85179	85143	89571	89567
Adjustments to reconcile the profit of the year to net cash generated from operating activities:						
Gain or loss on sale of property plant and equipment and intangible asset	(334)	(334)	117	117	(55)	(55)
Depreciation and amortization and impairment expense*	21117	21124	23100	23100	14961	14965
Unrealized exchange loss	4794	4794	3945	3945	2664	2664
Gain on sale of investment	(5978)	(5978)	(3486)	(3486)	(2646)	(2646)
Share based compensation expense	1347	1347	1742	1742	1534	1534
Share of profit of associates	11	11	-	-		
Income tax expense*	22391	22390	25214	25213	25366	25366
Dividend and interest (income /expense)	(14569)	(14569)	(16259)	(16259)	(19599)	(19599)

Gain from sale of eco energy division	-	-	(4082)	(4082)	-	-
Other non cash item	4405	4405	(1732)	(1732)	-	-
Change in operating asset and liabilities:						
Trade receivables	(9735)	(9735)	3346	3346	(5317)	(5317)
Unbilled revenues	2192	2192	3813	3813	(5329)	(5329)
Inventories	545	545	1475	1475	(542)	(542)
Other assets*	(111)	(170)	4054	4054	(766)	(766)
Trade payables other liability and provisions	4499	4499	(5232)	(5202)	4683	4683
Unearned revenues	1733	1733	(2945)	(2945)	1282	1282
Cash generated from operating activities before taxes	112338	112338	118249	118249	105808	105808
Income tax paid	(28105)	(28105)	(25476)	(25476)	(26935)	(26935)
Net cash generated from operating activities	84233	84233	92773	92773	78873	78873
Cash flow from investing activities:						
Purchase of property plant and equipment	(21870)	(21870)	20853	20853	(13951)	(13951)
Proceeds from sale of property plant and equipment	1171	1171	1207	1207	779	779
Proceeds from sale of eco energy division ,net of related expenses	-	-	4372	4372	-	-
Purchase of investment	(782475)	(782475)	(813439)	(813439)	(934958)	(934958)
Proceeds from sale of investment	830448	830448	729755	729755	830647	830647
Impact of investment held in activities	-	-	(226)	(226)	266	266
Payment for business acquisition including deposits and escrow net of cash acquired	(6652)	(6652)	(33608)	(33608)	(39373)	(39373)
Interest received	14347	14347	17069	17069	18368	18368
Dividend received	609	609	311	311	66	66
Income tax paid on sale of eco energy division	-	-	(871)	(871)	-	-
Net cash generated from investing activity	35578	35578	(116283)	(116283)	(138156)	(138156)
Cash flow from financing activities:						
Proceeds from issuance of equity shares	24	24	-	-	4	4
Repayment of loans and borrowings	(155254)	(155254)	(112803)	(112803)	(137298)	(137298)
Proceeds from loans and borrowings	144271	144271	125922	125922	172549	172549
Payment for deferred contingent consideration in respect of business combinations	(164)	(164)	(138)	(138)	-	-
Payment for buyback of shares including transaction costs	(110312)	(110312)	(25000)	(25000)	-	-
Interest paid on loans and borrowings	(3123)	(3123)	(1999)	(1999)	(1348)	(1348)
Payment of dividend (DDT)	(5420)	(5420)	(8734)	(8734)	(35494)	(35494)
Net cash used in financing activities	(129978)	(129978)	(22752)	(22752)	(1587)	(1587)
Net decrease in cash and cash equivalents during the year	(10167)	(10167)	(46262)	(46262)	(60870)	(60870)

Effect of exchange rate changes on cash and cash equivalents	375	375	(1412)	(1412)	549	549
Cash and cash equivalents at the beginning of the year	50718	50718	98392	98392	158713	158713
Cash and cash equivalents at the end of the year	40926	40926	50718	50718	98392	98392

INTERPRETATION:

***depreciation and amortization and impairment expenses :** The cash flow shows the difference in depreciation in both the standard setting as the deposits and advances for the acquisition of an asset and cost of the asset /equipment is taken into account in IFRS whereas only the cost of asset /equipment is taken into account as work in progress in IND -AS.

***income tax expense :** There is a change in the income tax liability due to the change in profit earned by the company under each circumstances respectively .

***profit of the year :** There is a notable change in the profit of the company due to the diverse expenditure made by it under each standard . Expenses under IND AS includes finance costs ,legal and professional charges and other expenses which may not appear or utterly differ from the expenses made under IFRS .Thus these factors may have a impact on the profit earned by the company .

***Other Assets:** Due to the constant change in the depreciation of the assets, addition and deletion during made each financial year possibilities of change in other assets can be reflected.

2.EARNINGS PER SHARE-33

Ind-AS	IFRS
1.PRONOUNCEMENT:	
Ind-AS-33 deals with EPS	IAS-33 deals with EPS
2.SCOPE:	
Applicability to all enterprises whose equity shares are listed on the recognized stock exchange in India .	Applied by entities whose ordinary shares are publicly traded and all those who are in process of issuing shares .
3.ADDITIONAL DISCLOSURE :	
EPS on basis of earnings excluding extraordinary items is disclosed when applicable	IAS does not record any extraordinary item .
4.DISCLOSURE OF NOMINAL VALUE PER SHARE :	
Compulsory	Not required
5.CONTINUING/ DISCONTINUED OPERATIONS:	
No separate EPS disclosure for continuing and discontinued operations	EPS shall be disclosed tor continuing and discontinued operations.

From the above table we can clearly observe there is a difference between the Ind- AS 33 and IAS standards .It also involves the differences between the disclosure procedures, applicability in entities and in their continuing and discontinuing operations too .

(TABLE:2.1)**CALCULATION OF “EARNINGS PER SHARE” OF INFOSYS LTD UNDER IND-AS –33**

*figures in crores

Particulars	March 2018	March 2017	March 2016
Net profit after tax	16,100.00	14,383.00	13,492.00
LESS : Preference dividend	NIL	NIL	NIL
a)Net profit available to equity shareholders for basic EPS	16,100.00	14,383.00	13,492.00
b)NO of equity shares considered for EPS (*figures in lakhs)	22,553.3	22,856.55	22,856.21
c)Basic[EPS]	71.38	62.93	59.03

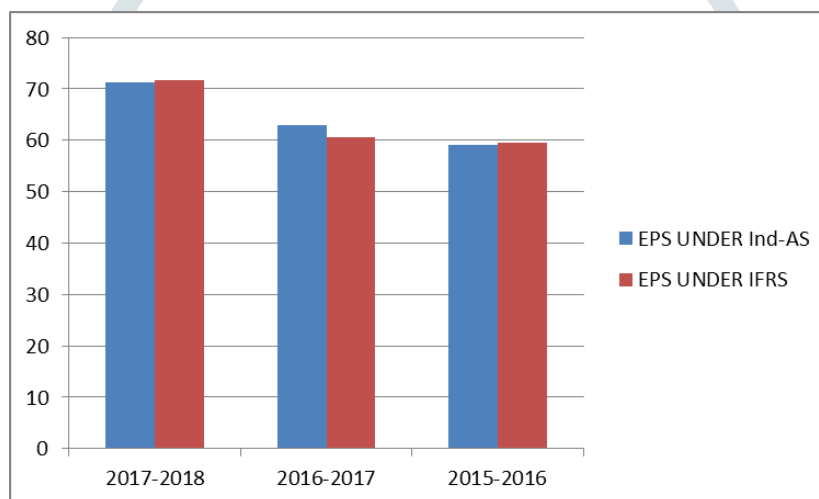
(*figures in rupees) a/b			
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(TABLE:2.2)

CALCULATION OF “EARNINGS PER SHARE” OF INFOSYS LTD UNDER IFRS–33

*figures in crores

Particulars	March 2018	March 2017	March 2016
Net profit after tax	16,179.26	13870.28	13,592.00
LESS : Preference dividend	NIL	NIL	NIL
a)Net profit available to equity shareholders for basic EPS	16,179.26	13870.28	13,592.00
b)NO of equity shares considered for EPS (*figures in lakhs)	22,553.30	22,856.55	22,856.21
c)Basic[EPS] (*figures in rupees) a/b	71.73	60.69	59.46



(FIGURE 2.1) EPS OF INFOSYS

INTERPRETATION :

The above graph indicating the EPS of INFOSYS limited shows the portion of the company’s profit that is allocated to every individual share of the stock .It is clearly found that there was a difference between both the Ind-AS and IFRS in their EPS. This difference was found due to change in certain accounting policies between Ind-AS and IFRS and their presentation of financial statements .

(TABLE:2.3)

CALCULATION OF “EARNINGS PER SHARE” OF WIPRO LTD UNDER IND AS – 33

*figures in crores

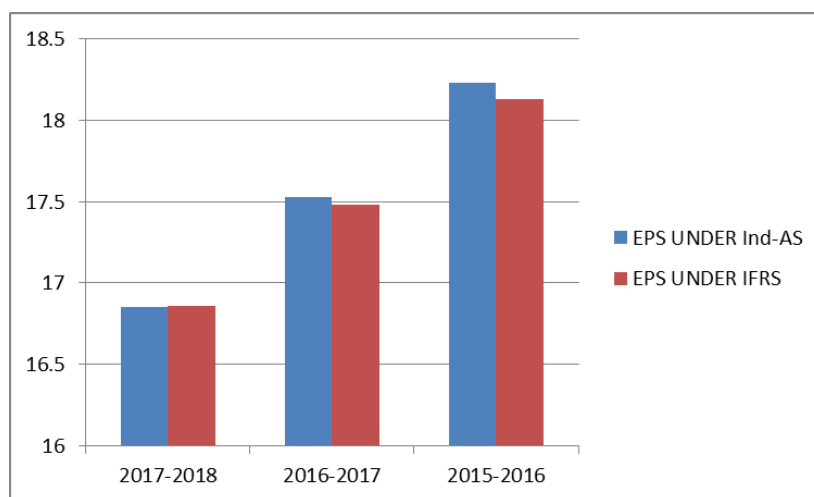
Particulars	March 2018	March 2017	March 2016
Net profit after tax	8,003.1	8,517.9	8,957.10
LESS : Preference dividend	NIL	NIL	NIL
a)Net profit available to equity shareholders for basic EPS	8,003.1	8,517.9	8,957.10
b)NO of equity shares considered for EPS (*figures in lakhs)	47500.43	48570.81	49131.19
c)Basic[EPS] (*figures in rupees) a/b	16.85	17.53	18.23

(TABLE.2.4)

CALCULATION OF “EARNINGS PER SHARE” OF WIPRO LTD UNDER IFRS – 33

*figures in crores

Particulars	March 2018	March 2017	March 2016
Net profit after tax	8,008.4	8,514.3	8,956.7
LESS : Preference dividend	NIL	NIL	NIL
a)Net profit available to equity shareholders for basic EPS	8,008.4	8,514.3	8,956.7
b)NO of equity shares considered for EPS (*figures in lakhs)	47500.43	48570.81	49131.19
c)Basic[EPS] (*figures in rupees) a/b	16.86	17.48	18.13



(FIGURE:2.2) EPS OF WIPRO

INTERPRETATION :

The above graph indicating the EPS of WIPRO limited shows the portion of the company's profit that is allocated to every individual share of the stock .It is clearly found that there was a difference between both the Ind-AS and IFRS in their EPS. This difference was found due to change in certain accounting policies between Ind-AS and IFRS and their presentation of financial statements .

VII. FINDINGS

- Too little accounting literature produced by the Indian accounting standards than the IFRS
- Standard setting process in India neither consultative nor transparent.
- There is no full compliance (100%) for any accounting standard over the examined period for Ind-AS.

VIII. SUGGESTIONS

- The INDIAN ACCOUNTING STANDARDS should ensure transparency in the standard setting process and should keep terms updated the resolutions passed at these meetings
- The Indian accounting standards must avoid multiplicity in standard setting and diverse variations.
- Complex and dividend regulatory system impedes surveillance and enforcement functions of Stock Exchanges, SEBI, the Reserve Bank of India (RBI), the Insurance Regulatory and Development Authority (IRDA), thus transparency In Ind-AS can be improved.

IX. CONCLUSION

In this comparative study of financial reporting, standard setting institutions and the standard setting process were compared .The study revealed that there is need to improve the structure of the Indian standard setting body, that is Indian Accounting Standards setting process also needs improvement .Suggestions were made for improving the standards setting process Implementing these suggestions would lead to better accounting standards set by the ASB and would also lead to improvement in financial reporting

in India .These findings support hypothesis that Improvement in financial reporting in India is possible by improving standard setting process in India Selected accounting standards were compared with a view to improving principles under Indian accounting standards .Where ever necessary, suggestions were made to change the Indian accounting standards Implementing these suggestions would lead to improved Indian accounting standards and that would also lead to improvement in financial reporting in India.

X. BIBLIOGRAPHY

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