IMPACT DIFFERENCE OF IFRS AND IGAAP ON THE FINANCIAL PERFORMANCE OF IT SECTOR WITH REFERENCE TO TCS & INFOSYS

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ABSTRACT

The present study has been focused on the adoption of IFRS impact is having any difference compared with the IGAAP for the IT Industries. The study has considered the historical data from the period of 2011- 12 to 2015-16. The study has considered the key financial ratios and measured under the IGAAP and IFRS and measured the impact with the help of ordinary least square method. The study result stated that the TCS and Infosys eps and roa and roe are significantly influenced higher under IFRS compared to the IGAAP. The study found that the after the adoption of IFRS the earnings per share has grown slightly higher compared with the IGAAP. This study is useful to the Indian industries, charted accountants, Tax consultants and academicians.

Key word: EPS, IFRS, IGAAP, ROA ROE, TCS, INFOSYS.

INTRODUCTION

Distance is no longer essential in the present era of globalization. As the world is now being referred to as a global village, one of the most important prerequisite for existence is to operate a business successfully and also to have a good financial reporting system. In this respect it is vital that universally established standards are established in all areas in order to resolve disputes and discrepancies in distinct nations and that a well-defined and organized policy framework is established. International Financial Reporting Standards (IFRS) were developed for businesses around the world as a prevalent global language to ensure that business reports are similar and understandable.

From 1 April 2011, India has established a roadmap for convergence with the International Financial Reporting Standards (IFRS). Convergence with IFRS norms will alter the financial reporting landscape in India. As embraced by more than 100 countries IFRS reflects the most widely recognized global accounting structure. Indian companies raise global assets with the development of the Indian economy and increased integration into the global economies. It is therefore essential that Indian companies adopt IFRS for economic reporting purposes under these conditions. While, as of 1 April, 2011 Indian companies with global ambitions should consider previous voluntary implementation, the Core Group of Ministry of Corporate Affairs (MCA) suggested phased convergence with IFRS. Although the Indian GAAP and IFRS have different similarities, there are still variations that can have a important effect on the financial statements. The purpose of this article is to highlight these elements and to carry out a comparative assessment of IFRS on General Accepted Indian Accounting Principles (GAAP).

As a prevalent worldwide company platform, the IFRS International Financial Reporting Standard (IFRS) concept ensures that the accounting of companies can be comprehensible and similar across international boundaries. However, it was not feasible to make it compulsory in India until 2014 because of some legal difficulty and some significant shifts in the international norm. In the case of indigenous businesses other than banking, non-bank financing firms, and insurance companies, the Ministry for Corporate Affairs (MCA) informed the amended Guideline for Implementing Ind AS.

REVIEW OF LITERATURE

Arash Naderian and B. Mahadevappa (2014)[1] By adopting a single set of high-quality accounting standards, investment and other economic decisions would be facilitated across borders, market efficiency would be improved and the cost of raising capital would be lowered; in these ways, IFRS is the largest set of accounting standards adapted by 115 countries globally. In this document, scientists looked at the 2010 effect of IFRS convergence on the financial position of Noida Toll Bridge Company Limited, and we looked at the effect of IFRS conversion and the change ratio between products using ratios. So after finding the ratio of changes we start to find the reason of these changes through the comparing between IFRS and Ind AS.

Rahul Kamath and Ruchir Desai (2016)[2] This paper examines the impacts of IFRS application on the financial activities of Indian companies, using a sample of 8 for three years, from 2010-11 to 2012-13. In this studies, four areas of financial activity are regarded, i.e. economic risks, investment, company and debt contracts. The results show that the application of IFRS has significantly affected economic indicators, investment activities and activities, while the statistically significant impact of financial risks and debt contracts does not occur.

Surajit Das and Tapash Ranjan Saha (2017)[3] IFRS is transformed into a global reporting language. Therefore, India is willing to adopt it for its own interests and make it mandatory. The primary objective of this study was to combine IFRS with the Indian GAAP and document the basic difference between these two norms. It helps to determine the effect of adopting IFRS on the financial statements and market value of Indian Companies. When a country adopts a new accounting standard for its own domestic companies for reporting its financial statement, the quantitative and qualitative features of the financial statements may be impacted.

Vidya Chandrasekar, Kumar D. N. S. (2017)[4] This study aimed to understand the impacts of this voluntary reporting scheme on the primary economic ratios of four selected IFRS companies. The study compared twelve important IFRS financial ratios as reported in its financial statements from 2009–10 to 2013–14 and Indian Generally Accepted Accounting Principles (IGAAP). For the purposes of the studies, financial ratios of four primary company elements, namely liquidity, leverage, revenues and efficiency, were taken into consideration. A non-parametric test was used to understand the statistical significance of the ratio difference.

Of the 12 ratios analysed, 10 were statistically significant. Furthermore, the study outlined the components of the economic declaration that caused the difference in the ratios of those firms. The results showed a significant 10 percent quantity of current shareholder liability and equity, thus explaining the difference in IFRS financial statement products.

OBJECTIVES OF THE STUDY

1. To examine the profitability ratios under IGAAP and IFRS of select IT companies
2. To know the impact difference of profitability margin under IGAAP and IFRS of select IT Industries

HYPOTHESIS OF THE STUDY

H0: There is no impact difference of profitability margin under IGAAP and IFRS

SCOPE OF THE STUDY: The present study has been emphasized on the IT sector. The study haws considered the two IT companies (TCS and INFOSYS) based on the market capitalization and availability of voluntary balance sheets under IFRS. The study has confined to 5 years data from the period of 2011-12 to 2015-16 years.

RESEARCH METHODOLOY: The study has considered the secondary data of five years. The study has considered the profitability ratio components as Return on assets, Return on equity, Earnings per Share and along with Profitability Margin under IGAAP and IFRS. The study applied the following ratios

ROA – Independent Variable – IFRS - IGAAP

ROE - Independent Variable – IFRS - IGAAP

EPS - Independent Variable – IFRS - IGAAP

Profitability Margin - Dependent Variable – IFRS – IGAAP

Ordinary Least Square: The study has considered the ordinary least square method to identify the impact difference of profitability ratios on the profitability margin under the IFRS and IGAAP regimes. The study has considered the E-views software version – 10.

TABULATION OF DATA ANALYSIS

1st Objective: To examine the profitability ratios under IGAAP and IFRS of select IT companies

The present study has examined the profitability ratio components for the five years i.e., 2011-12 to 2015-16. The study has considered the TCS and Infosys from IT sector.

Table - 1

Profitability Ratios of TCS under IFRS and IGAAP

		2011-12	2012-13	2013-14	2014-15	2015-16
ROA	IGAAP	25.19	26.62	28.54	26.95	27.24
	IFRS	28.11	29.71	32.09	28.19	29.79
ROE	IGAAP	35.32	36.10	38.95	39.20	34.14
	IFRS	37.79	40.06	42.94	39.05	41.30
EPS	IGAAP	53.07	70.99	97.67	101.35	123.18
	IFRS	53.20	71.10	97.83	10.13	12.32
Profit Margin	IGAAP	21.52	22.34	23.63	21.19	22.40
	IFRS	21.11	21.68	22.96	20.28	21.74

Source: Secondary Data

The above table depicts the comparison of IGAAP and IFRS under Return on Assets Ratio of TCS. The result indicated that IGAAP and IFRS show fluctuations towards the study period. While comparing IGAAP and IFRS, IFRS has shown the higher return on assets ratio in all years i.e. from 2012 to 2016. The above table depicts the comparison of IGAAP and IFRS under Return on Equity Ratio of TCS. The result indicated that IGAAP and IFRS show fluctuations towards the study period. While comparing IGAAP and IFRS, IFRS has shown the higher return on equity ratio in all years i.e. from 2012 to 2016. The above table depicts the comparison of IGAAP and IFRS under Earnings per Share of TCS. The ratio present similar result as the IGAAP has higher EPS than the IFRS. The above table depicts the comparison of IGAAP and IFRS under profit margin of TCS. The result indicated that IGAAP and IFRS show fluctuations towards the study period. While comparing IGAAP and IFRS, the profit margin is higher under IGAAP.

Table - 2

Profitability Ratios of TCS under IFRS and IGAAP

		2011-12	2012-13	2013-14	2014-15	2015-16
ROA	IGAAP	12.95	14.08	15.99	14.83	12.36
	IFRS	13.86	15.23	16.64	15.79	13.49
ROE	IGAAP	20.74	23.15	24.73	23.34	19.30
	IFRS	21.32	23.43	24.99	23.16	20.45
EPS	IGAAP	22.88	25.07	32.37	35.28	36.26
	IFRS	22.85	27.18	31.94	35.46	36.20
Profit Margin	IGAAP	15.05	16.51	18.40	18.55	17.47
	IFRS	15.05	17.82	18.05	18.54	17.44

Source: Secondary Data

The above table depicts the comparison of IGAAP and IFRS under return on assets ratio of Infosys. The result indicated that both IGAAP and IFRS are fluctuating towards the study period. While comparing IGAAP and IFRS, IFRS has shown the higher return on assets in all years i.e. from 2012 to 2016. The above table depicts the comparison of IGAAP and IFRS under Return on Equity Ratio of Infosys. The result indicated that IGAAP and IFRS show fluctuations towards the study period. While comparing IGAAP and IFRS, IFRS has shown the higher return on equity ratio except in year 2014-15. The table depicts the comparison of IGAAP and IFRS under Earnings per Share of Infosys The ratio present fairly similar result under IGAAP and IFRS. The table depicts the comparison of IGAAP and IFRS under Profit Margin of Infosys. The ratio presents fairly similar result under IGAAP and IFRS, but seems to be fluctuating towards the end. While comparing IGAAP and IFRS, IGAAP has shown the higher profit margin except in year 2012-13.

2nd Objective: To know the impact difference of profitability margin under IGAAP and IFRS of select IT Industries

Table – 3

Impact of profitability margin difference under IGAAP and IFRS for TCS

Dependent Variable: TC_PM_IFRS				
Method: Least Squares				
Sample: 1 41				
Included observations: 41				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
IFRS				
C	234.8303	993.5632	0.236352	0.8145
TCS_ROA_IFRS	15.93024	5.356726	2.973876	0.0052
TCS_ROE_IFRS	13.81041	4.143599	3.332950	0.0020
TCS_EPS_IFRS	18.81620	5.026231	3.743600	0.0006
IGAAP				
C	182.6825	798.5722	3.683622	0.00261
TCS_ROA_IGAAP	11.57292	2.683622	3.683262	0.0029
TCS_ROE_ IGAAP	12.57382	6.920362	1.083833	0.0000
TCS_EPS_ IGAAP	16.9375	2.683632	2.568236	0.0000
R-squared	0.824278	Mean dependent var		2.628537
Adjusted R-squared	0.810030	S.D. dependent var		14590.84
S.E. of regression	6359.498	Akaike info criterion		20.44575
Sum squared resid	1.50E+09	Schwarz criterion		20.61293
Log likelihood	-415.1380	Hannan-Quinn criter.		20.50663
F-statistic	57.85313	Durbin-Watson stat		3.650141
Prob(F-statistic)	0.000000			

Source: Secondary Data

The above table illustrates the impact of Return on assets, Return on equity and Earnings per share ratio's impact on the Operating profitability under the TCS IFRS. The result indicates the coefficient of return on assets ratio (15.93024), return on equity ratio (13.81041) and EPS (18.81620) is having the higher influence on the operating profitability. It has been found that under the IGAAP regime all the ratios impact has been observed lower compared with the IFRS. The ROA (11.57292) having the lowest influence on the Profitability Margin under IGAAP.

Table – 4

Impact of profitability margin difference under IGAAP and IFRS for Infosys

Dependent Variable: INFOSYS_PM_IFRS01				
Method: Least Squares				
Sample (adjusted): 1 5				
Included observations: 5 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
IFRS				
C	0.755941	7.067980	0.106953	0.0046
INFOSYS_ROA_IFRS01	-0.792103	-2.061714	-0.869230	0.0003
INFOSYS_ROE_IFRS01	2.668567	1.483252	1.124938	0.0015
INFOSYS_EPS_IFRS01	0.830992	0.104265	2.215434	0.0000
IGAAP				
C	0.155941	5.572511	1.778825	0.0022
INFOSYS_ROA_ IGAAP	-1.927251	4.571511	0.547252	0.0045
INFOSYS_ROE_ IGAAP	2.732622	2.681622	2.782722	0.0026
INFOSYS_EPS_IGAAP	0.643109	0.917161	3.682621	0.0099
R-squared	0.910809	Mean dependent var		17.28280
Adjusted R-squared	0.643234	S.D. dependent var		1.272992
S.E. of regression	0.760356	Akaike info criterion		2.280503
Sum squared resid	0.578142	Schwarz criterion		1.968053
Log likelihood	-1.701258	Hannan-Quinn criter.		1.441919
F-statistic	3.403948	Durbin-Watson stat		3.560413
Prob(F-statistic)	0.374521			

Source: Secondary Data

The above table illustrates the impact of Return on asset ratio, Return on equity ratio and EPS impact on the Operating profitability under the INFOSYS IFRS. The result indicates the coefficient of Return on asset Ratio (-0.792103) is having the negative influence on the operating profitability. whereas Return on equity ratio

(2.668567) is having the higher impact INFOSYS operating profitability under the IFRS and EPS(0.830992) is having lower influence on operating profit ratio. The study has made an attempt to compare with the IGAAP of the profitability ratios and the result indicated that the ROA (-1.927251) is having the negative impact on the profitability margin. The ROE (2.732622) is found to be having the higher influence on the profitability margin of Infosys under IGAAP.

FINDINGS OF THE STUDY

1. The study found that financial indicator had shown significant impact on profit margin of TCS but Financial indicators such as Quick Ratio and Equity Ratio is observed to be insignificant
2. The study examined that financial ratio such as Earning per Share, return on Assets and return on equity are influence high on profit margin of TCS with their respective coefficient value 15.9, 13.8, 18.8.
3. Ordinary Least Square found that after the adoption of IFRS accounting standard Infosys's financial indicators had shown significant influence on its profit margin.
4. The study found that the profitability ratios are having the slightly higher impact under the IFRS compared with the IGAAP for the both TCS and Infosys industries.
5. The study examined that, Infosys and TCS's Earning per share had increase year on year and observed slightly difference between after adoption of IFRS.

SUGGESTIONS OF THE STUDY

1. The study observed that the adoption of the IFRS into India has made structural changes. Hence study suggests the investors need to be cautious with the EPS growth. As the EPS is slightly showing the higher growth in IFRS compared to IGAAP.
2. The study suggests the Indian companies need to convert the accounting systems which are below the 500 cr., so that the foreign industries will be investing into Indian companies.
3. The study observed that the many industries are not fully familiar with the IND. AS, hence the study suggests the regulators need to create awareness on the adoption of IFRS in India.

CONCLUSION OF THE STUDY

The present study has been emphasized on the Adoption of the IFRS impact on the financial performance of the IT sector. The study has considered the two organizations i.e., Infosys and Infosys from the period of 2011-12 to 2015-16. The study has measured the key financial ratios under IGAAP and IFRS and found that few ratios are showing slightly at higher side. The EPS is showing higher in IFRS than the IGAAP. The study applied the ordinary least square method and indicated that the key ratios are having the significant difference under the IFRS and IGAAP. Hence there is a need to do further research in this area, such as awareness on the IFRS of the organizations.

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