# Convergence of Accounting Standards with International Financial Reporting Standards: Analysis of Financial Statements of WIPRO LTD.

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## *Abstract*

*Companies use the International Accounting Standards Board's (IASB) International Financial Reporting Standards (IFRS) to put together their financial records. This makes it easy to understand and compare the financial statements of different businesses in different countries. It also gives users of financial statements information that is important and useful. Instead of adopting IFRS, which would have meant the end of accounting standards, India has chosen the convergence path. In this case, a new set of financial rules is made that are mostly the same as IFRS. But the IFRS are changed to fit the way people use them and the way business is done in the country. These standards that are the same are called Ind. As. The Indian Ministry of Corporate Affairs (MCA) put out a notice on February 16, 2015, about the Companies (Indian Accounting Standards) Rules, 2015. The new Indian Accounting Standards, which are a converged form of the international financial reporting standards (IFRS), will be used in India over time. The convergence of accounting standards with IFRS is expected to lead to better disclosure by Indian businesses that is in line with best practices around the world. In this situation, the current study gives an overview of the financial effects of using Ind. As by WIPRO Ltd., an India-based public limited company.*

*Keywords- Accounting Standards, IASB, Convergence, IFRS, Ind. As.*

## Introduction –

In this era of globalization economies of almost all countries are become globally connected and involved in the international business through multinational business concept. The new concept of the International Financial Reporting Standard is being introduced by the International Accounting Standard Board. Many countries of world have adopted IFRS in the same nature and quality, but many counties have made convergence of its past IGAAP with IFRS. India is also one of those countries who converged with IFRS. Converged Indian Accounting Standards are known as Ind AS for achieving international business advantages. This is all because of India's commitment in G20 summit for adoption of IFRS.ICAI has played significant role in the introduction of IndAS in India. This research paper put forward a viewpoint that the convergence as well as comparison of Indian IGAAP with IFRS will bring benefits to parties who are associated with the business. Financial statements are a crucial aspect of any organization as they provide valuable information about the financial health of the company. However, financial reporting standards differ across different countries, and companies must adhere to the standards applicable to their region. In this context, the comparison of financial statements prepared under Indian Generally Accepted Accounting Principles (IGAAP) and International Financial Reporting Standards (IFRS) is a crucial topic. IGAAP is a set of accounting principles and practices adopted in India, while IFRS is a set of globally accepted accounting standards. A comparative analysis of financial statements prepared under these two standardscan help in identifying the differences in accounting practices and highlight the advantages and disadvantages of each approach. This can be particularly useful for companies that operate across multiple countries and are required to prepare financial statements under different standards.

## IGAAP: -

Accounting standards in India are set by the Accounting Standards Board (ASB).Since its creation in 1977, ASB has been exercising its obligations of formation and periodic adjustment of accounting standards in India. All accounting standards, as well as all other basic accounting concepts, numerous legislations, rules, and laws of the country governing accounting functionaries, are collectively referred to as Indian GAAP or IGAAP. Yet, as India's economy hasbecome more globalized, Indian companies are expanding abroad and foreign companies are expanding in India, resulting in cross-border transactions.

Ind AS, also known as Indian Accounting Standards, is a converged form of IFRS or the Indian Version of IFRS.

## IFRS

Initially, IFRS was conceived as an attempt to harmonize accounting methods acrossthe European Union. Yet, the concept of 'accounting harmonization' drew the attention of global accounting professionals, investors, the government, and other company stakeholders. In 1973, the Board of the International Accounting StandardsCommittee (IASC) established the first International Accounting Standards (IAS). Later in 2001, the IASC was superseded by the new IASB, or International Accounting Standards Board, which took over responsibility for International Accounting Standards from the IASC. Following that, the IASB framed the IFRS byembracing existing IAS and Standing Interpretations Committee standards (SICs).

## Research Background

The globalization process of the world's economy and markets led companies and nations to become world global players and more investments take place ona global level. Accounting standards are essential so that the financial statements will fairly and consistently describe the financial performance and soundness of any firm worldwide. This paper is intended to show an outcome of the convergence, adoption, compliances divergences between the INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) and
INDIAN ACCOUNTING STANDARDS (IGAAP). The study was carried out for the period of 3 years (2016-17,

2017-18 and 2018-19) and the analysis is made on financial statements of WIPRO Ltd.

Most of the countries have faced obstacles in their decisions to converge IFRS, its widespread adoption has been helped by the disagreement that the welfares outweigh the costs. There has been impulsion towards the conversion of IFRS improved and issued by the IASB. The organizations should enable managers and others to measure the effectiveness of the financial reporting system inplace such as training and growth for practitioners and few members, due meticulousness for accounting standards and overall institutional and expert organization and the overall institutional and professional organization conductive for effective used standards.

## IFRS IN INDIA

The Institute of Chartered Accountants of India (ICAI) is playing a crucial role to bring out widely accepted accounting standards in India. It has developed "Indian Accounting Standards" denoted as "Ind AS" to converge with IFRS. Convergence is the process of harmonizing accounting standards issued by the different regulatory bodies. In other words, convergence means alignment of the standards of different standard setters with a certain rate of compromise, by adopting the requirements of the standards either fully or partially. Convergence with IFRS implies achieving harmony with IFRS and designing and maintaining national accounting standards in a way that they comply with the International Accounting Standards.The Council of the Institute of Chartered Accountants of India, has converged Accounting standards with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board and notified to apply it from the accounting periods commencing on or after 1st April, 2016 (Mandatorily) and on or after 1st April 2015 (Voluntarily).After this announcement, ICAI has fast tracked the process of issuing Ind.AS. it was decided to issue standards based on IFRS issued till Aug 31,2014.In consequence of above announcement, Ministry of Corporate Affairs ( MCA) vide press release in Jan 2015 issued roadmap for implementation of Indian accounting standards other than banking companies, Insurance Companies and NBFCs.

# Literature Review

**KIRTAN P. RAVAL (2017) in his study "**Indian Accounting Standards (Ind AS): An overview," the demand for accounting uniformity has grown over the past few decades, and other multi-nation economies are also developing their multi-product businesses. On the other hand, difficulties are emerging in financial comparisons at the international level as a result of variations in financial reporting and accounting standards. IASB (International Accounting Standard Board) developed the idea of unified accounting standards, or IFRS, to address this issue (International Financial Reporting Standard). Few nations in the globe have already embraced this change and are working to bring IFRS into line. This essay offers a succinct discussion of how Indian Accounting Standards and IFRS converged (IND AS).

**Mala, R. & Chand, P. (2012)** stated important ramifications of the global economic downturn for financial reporting were investigated in the study; in particular, it was investigated whether the trend toward convergence has been delayed by fundamental issues in the IFRS. The financial crisis, opposite to our expectations, has strengthened the argument for the worldwide harmonization of accounting practices, according to the available data. There has been no impact from the global financial crisis on most nations planning to converge soon, and they remain committed to adopting IFRS as scheduled. The study also revealed that banks, regulators, policymakers, and finance ministers have been putting pressure on the International Accounting Standards Board to evaluate its regulations on FVA. This has led to the "International Accounting Standards Board (IASB)" adopting steps to strengthen reporting standards in the wake of the financial crisis.

**Shinde, P.M. (2012)** exposed the difficulty of implementing IFRS in India. Fair value measurement under IFRS was shown in the study to enhance earnings volatility and various performance indicators including earnings per share and price-to-earnings ratios. Earnings were affected by gains or losses from fair value adjustments. Based on their findings, the researchers recommended better training for accounting personnel. In addition, it was determined that thorough SWOT analyses of industries, along with enough study and preparation, were essential for the effective adoption of IFRS.

**Outa, E. R. (2011)** adopted IFRS, resulting in improvements like more openness, better accounting quality, and lower cost of capital, this study aimed to determine whether Kenya has seen an uptick in accounting quality for publicly traded firms since adopting IFRS. Accounting quality metrics of profits management, prompt loss recognition, and value relevance were assessed using quantitative methods and in response to recommendations from country-specific studies.

**Jain, P. (2011)** studied reliable method of tracking financial data was crucial for any enterprise's smooth operation. With this in mind, accountants and accounting organizations around the world have spent the last decade trying to establish a unified, solid, and broadly applicable financial reporting system. In 2005, European Union nations legally accepted IFRS from the "International Accounting Standards Board (IASB"; formerly IASC). Many nations have embraced IFRS and were working toward convergence with it in the years since its inception. India, a rising power in the global economy, has also adopted IFRS. The purpose of the study would be to examine the data thus far on India's adoption of IFRS. The process of adopting IFRS in India and the benefits to the country also were discussed. This study examined the challenges that regulators, accountants, businesses, and other interested parties in India have encountered as they have attempted to implement IFRS.

**Liu, C. & O'Farrell, G. (2011)** analyzed a sample of IASB-IFRS-compliant US-listed foreign firms and US-listed international corporations for fiscal years that ended before November 15, 2007, respectively. They show that it was possible to compare accounting metrics created using IFRS and US GAAP directly.

**Procházka, D.(2010)** found out the managers' inspiration for using the consolidated financial and management accounting system. The study's authors argued that regulators in the Czech Republic could do more to improve accounting and financial reporting by either adopting certain provisions of IFRS into the "CAS (Czech Accounting Standards)" or expanding the types of entities that were already required or permitted to report in compliance with IFRS.

**Iatridis, G. (2010)** checked how major financial indicators for UK companies fared after adopting IFRS. The results demonstrated that the company's financial performance, including profitability and growth potential, had improved as a result of adopting IFRS. It also showed that the move to IFRSs seemed to promote volatility in financial statement statistics due to the fair value focus of those standards.

## NEED OF THE STUDY

With a view to ensure smooth transition to the IFRSs from April 1, 2016, the Institute of Chartered Accountants of India will take up the matter of convergence with IFRSs with the National Advisory Committee on Accounting Standards (NACAS) established by the Ministry of Corporate Affairs, Government of India, and various regulators such as the Reserve Bank of India, the Insurance Regulatory and Development Authority and the Securities and Exchange Board of India.

The comparison of financial statements prepared under IGAAP and IFRS is an important area of research with several justifications. Firstly, the globalization of businesses has made it necessary to have a common set of accounting standards that can be used across different countries and regions. IFRS is becoming increasingly popular worldwide, and many countries are converging their accounting standards with IFRS. Understanding the differences between IGAAP and IFRS is, therefore, crucial for companies operating in India, as well as for investors and other stakeholders who rely on financial statements to make decisions. Secondly, the differences between IGAAP and IFRS can impact financial reporting and the decisions made by stakeholders. These differences can affect the reported financial position and performance of a company and can lead to variations in the valuation of assets and liabilities. Understanding the impact of these differences is important for companies, as well as for investors and creditors who rely on financial statements to make informed decisions. Finally, the comparison of financial statements prepared under IGAAP and IFRS can contribute to the development of accounting standards. By identifying the differences between the two frameworks, researchers can provide insights into the strengths and weaknesses of each framework. Some researchers concluded in their research that due to changes in principles under IFRS there is a impact on profitability of companies and earnings available for equity shareholders and other benefits to all other beneficiaries. None of the studies has examined the effect of convergence of accounting standards to IFRS on the financial statements of the Indian companies who have adopted converged Accounting Standards (Ind. AS) for preparing their annual reports. From the review it has been found that various studies have been conducted analysis on the financial reporting practices voluntarily published financial report under IFRS on the company. But not much work has been done so far on the comparative analysis of the financial reporting practices under IGAAP (IND AS) and IFRS.

# RESEARCH METHODOLOGY

### RESEARCH OBJECTIVES

The main objective of this study was to identify differences between Indian GAAP and IFRS in case of WIPRO LTD, by analyzing the financial statements. The financial statement of WIPRO LTD of 2016 -17, 2017-18 and 2018-19 was considered in both IFRS and Indian GAAP. In other word the objectives of the study concentrate on: -

**1)** To point out the reasons behind convergence of IFRS instead of adoption of IFRS.

**2)** To analyze the financial statements of WIPRO Limited under IGAAP & IFRS on the basis of Profitability and solvency.

**HYPOTHESIS**

**$H_0$: There is no significant difference in financial statements of WIPRO LTD, prepared as per IGAAP and IFRS.**

**$H_1$: There is significant difference in financial statements of WIPRO LTD, prepared as per IGAAP and IFRS.**

**RESEARCH DESIGN**

The research design in this work is **Descriptive Design.**

**DATA COLLECTION METHOD AND SAMPLE DESIGN**

The data have been collected with the help of **Articles, Journals and Annual Reports.** The Sample design of this research is **Convenience Sampling method.**

# DATA ANALYIS AND INTERPRETATION

**Table 1: Comparison between IND AS (IGAAP) and IFRS of Wipro Ltd**

| Year | Net profit Ratio | ROI | EPS | Debt Equity Ratio | Current Ratio |
|---|---|---|---|---|---|
| **IND AS** | | | | | |
| **(IGAAP)** | | | | | |
| 2016-17 | 15.48 | 20.63 | 34.97 | 0.08 | 2.35 |
| 2017-18 | 14.69 | 19.80 | 16.82 | 0.13 | 2.37 |
| 2018-19 | 15.39 | 19.97 | 14.99 | 0.08 | 2.67 |
| **IFRS** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| 2016-17 | 15.47 | 20.49 | 34.96 | 0.09 | 2.35 |
| 2017-18 | 14.47 | 19.79 | 16.86 | 0.13 | 2.24 |
| 2018-19 | 15.39 | 19.82 | 14.99 | 0.08 | 2.67 |

1. **Net Profit Ratio: -** Through the above table we can see that net profit through IGAAP and IFRS is almost same in the year 2016-17, 2017-18 and 2018-.
2. **Return On Investment**: - It measures the amount of return on a particular investment, relative to the investment's cost. As we can see, the return on investment according to IFRS and IGAAP is almost the same in the year 2016-17, 2017-18 and 2018-.
3. **Earning Per Ratio: -** This ratio is helpful in determining the market price of the equity share of the company. The ratio is also helpful in estimating the capacity of the company to declare dividends on equity shares. There is little bit variation in EPS under IGAAP and IFRS.
4. **Debt Equity Ratio: -** If the debt equity ratio is more than that, it shows a rather risky financial position from the long-term point of view, as it indicates that more and more funds invested in the business are provided by long-term lenders. The lower this ratio, the better it is for long-term lenders because they are more secure in that case. A lower than 2:1 debt equity ratio provides sufficient protection to long-term lenders. The debt equity ratio is almost same in IGAAP and IFRS.
5. **Current Ratio: -**According to accounting principles, a current ratio of 2:1 is supposed to be an ideal ratio. It means that the current assets of a business should, at least, be twice of its current liabilities. The higher ratio indicates the better liquidity position, the firm will be able to pay its current liabilities more easily. If the ratio is less than 2:1, it indicates lack of liquidity and shortage of working capital. The biggest drawback of the current ratio is that it is susceptible to "window dressing." This ratio can be improved by an equal decrease in both current assets and current liabilities. The current ratio is also similar in IGAAP and IFRS.

**HYPOTHESIS TESTING**

**$H_0$: There is no significant difference in financial statements of WIPRO LTD, prepared as per IGAAP and IFRS.**

**$H_1$: There is significant difference in financial statements of WIPRO LTD, prepared as per IGAAP and IFRS.**

**Table 2: ANOVA –**

**Net Profit Ratio as per IGAAP (Ind As) and IFRS**

| | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Between Groups | .009 | 1 | .009 | .036 | .860 |
| Within Groups | .992 | 4 | .248 | | |
| Total | 1.000 | 5 | | | |

Table 2 shows the outputs of the ANOVA analysis and whether there is a statistically significant difference between the group means. According to table 2, it can be seen that the significance value is 0.860 which is greater than 0.05, then there is no statistically significant difference between the two independent groups. So null hypothesis failed to reject.

**Table 3: ANOVA –**

**Return on Investment as per IGAAP (Ind As) and IFRS**

| | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Between Groups | .015 | 1 | .015 | .086 | .784 |
| Within Groups | .698 | 4 | .174 | | |
| Total | .713 | 5 | | | |

Table 3 shows the outputs of the ANOVA analysis and whether there is a statistically significant difference between the group means. According to table 3, it can be seen that the significance value is 0.784 which is greater than 0.05, then there is no statistically significant difference between the two independent groups. So null hypothesis failed to reject.

**Table 4: ANOVA –**

**Earning per share as per IGAAP (Ind As) and IFRS**

| | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Between Groups | .000 | 1 | .000 | .000 | .999 |
| Within Groups | 487.293 | 4 | 121.823 | | |
| Total | 487.293 | 5 | | | |

Table 4 shows the outputs of the ANOVA analysis and whether there is a statistically significant difference between the group means. According to table 4, it can be seen that the significance value is 0.999 which is greater than 0.05, then there is no statistically significant difference between the two independent groups. So null hypothesis failed to reject.

**Table 5: ANOVA –**

**Debt Equity Ratio as per IGAAP (Ind As) and IFRS**

| | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Between Groups | .000 | 1 | .000 | .022 | .890 |
| Within Groups | .003 | 4 | .001 | | |
| Total | .003 | 5 | | | |

Table 5 shows the outputs of the ANOVA analysis and whether there is a statistically significant difference between the group means. According to table 5, it can be seen that the significance value is 0.890 which is greater than 0.05, then there is no statistically significant difference between the two independent groups. So null hypothesis failed to reject.

**Table 6: ANOVA –**

**Current Ratio as per IGAAP (Ind As) and IFRS**

| | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Between Groups | .003 | 1 | .003 | .069 | .806 |
| Within Groups | .164 | 4 | .041 | | |
| Total | .167 | 5 | | | |

Table 6 shows the outputs of the ANOVA analysis and whether there is a statistically significant difference between the group means. According to table 6, it can be seen that the significance value is 0.890 which is greater than 0.05, then there is no statistically significant difference between the two independent groups. So null hypothesis failed to reject.

## FINDINGS AND CONCLUSION.

The decision to converge with IFRS will go a long way in the history of the profession.

The benefits with a maximum agreed view are “accuracy and reliability of accounting information will be enhanced”, “harmonization of external and internal reporting by creating single accounting language” and it will help the “professionals to serve globally”.

Convergence will help in global comparability of financial statements with other mentioned factors, but the focus is required to make it more convenient to use and understand by the preparers and the users, respectively. IFRS is considered a widely accepted set of accounting standards. IT companies in India have started publishing their financial results under IFRS voluntarily since 2001.In the present study, an attempt is being made to find the quantitative differences in the financial results presented under IFRS and Indian GAAP. It is found that there is no statistical significance in the differences. This proves that due to convergence of IGAAP With IFRS uniformity has been increased.

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