A Study of Differences in Financial Performance under Indian GAAP and IFRS: Case of Reliance Industries Limited

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Abstract:

IFRS being one of the best single set of accounting standards would facilitate investment and other economic decisions across borders, increase market efficiency, and reduce the cost of raising capital. IFRS has been adapted by 115 countries all over the world. In this article investigators considered the impact of convergence with IFRS on statement of financial position of RELIANCE INDUSTRIES LIMITED for the year 2016.

CONTENTS:

I. INTRODUCTION

The most effective way of achieving comparability is through adopting financial reporting frameworks based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) by any individual country (Ramanna & Sletten, 2010). The adoption of IFRS relies on each individual country since the IASB, as a standard setting body, does not have the enforcement power. Furthermore, even if a country decides to harmonize with IFRS, the compliance level is still dependent on that country's enforcement mechanisms, while there are still arguments about the need to achieve harmonization of international financial reporting.

International Financial Reporting Standards (IFRS) convergence, in recent years, has gained momentum all over the world. As the capital markets become increasingly global in nature, India being one of the key global players, convergence to IFRS will enable Indian entities to have access to international capital markets without having to go through the cumbersome conversion and filing process. It will lower the cost of raising funds, reduce accountants' fees and enable faster access to all major capital markets. Furthermore, it will facilitate companies to set targets and milestones based on a global business environment, rather than an inward perspective.

a) **IGAAP:** Indian Gaap is nothing but a set of accounting standards that every company operating in India must follow when reporting its financial results. Generally Acceptable Accounting Standards differ for each country as they incorporate policies and procedures that must be followed for financial disclosures as per the standards set in each country! ICAI is the body in India that has set the Accounting standards (Indian Accounting Standards) that are need to be followed while financial reporting, all CAs, its members, are an integral part of the corporate in India having the responsibility to report and furnish the financial results as per the set standards. So Indian Accounting Standards are termed as Indian Gaap. While US has its own set of accounting Standards termed as US Gaap; a non-US company when presenting its financial results in US must follow US Gaap. This helps in that all companies follow a uniform procedure in financial disclosures which are widely acceptable and followed in the country.

b) **IFRS:** International Financial Reporting Standards, usually called as IFRS, are standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide 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 many accountants to maintain books of accounts which are comparable, understandable, reliable and relevant as per the users internal or external.

c) **DIFFERENCE BETWEEN IFRS & INDIAN GAAP:**

	IFRS	**Indian GAAP**
Stands for	International Financial Reporting Standards	Generally Accepted Accounting Principles
Leading Authority	International Accounting Standards Board (IASB)	Ministry of Corporate Affairs (MCA)
Used in	Over 110 countries, and more are planning to shift to it	India
True & Fair Override	In extremely rare circumstances the true and fair override is allowed.	True and fair override is not permitted

Functional and presentation currency	Assets and liabilities are translated at the exchange rate at the balance sheet date when the financial statements are presented in a currency other than the functional currency.	No concept of functional or presentation currency.
Historical Cost	Generally, uses historical cost, but intangible assets, property plant and equipment (PPE) and investment property may be revalued to fair value	Uses historical cost, but property, plant and equipment may be revalued to fair value.
Cash Flow Statements	No Exemption	Exemption for SMEs
Revenue	Revenue should be measured at the fair value of the consideration received or receivable	Revenue is measured by the charges made to the customers or clients for goods supplied or services rendered by them and by the charges and rewards arising from the use of resources by them.
Depreciation	Depreciation is based on useful life.	Depreciation is based on higher of useful life
Major repairs and overhaul expenditure	Major repairs and overhaul expenditure are capitalized as replacement under certain conditions.	Major repair and overhaul expenditure are treated as expenses.
Presentation of joint ventures	Both proportional consolidation and equity method permitted	Proportional consolidation method used
Acquired intangible assets	Intangible assets assigned an indefinite useful life are not amortized	All intangible assets are amortized over useful life with a rebuttable presumption of not exceeding 10 years.

d) **FINANCIAL PERFORMANCE:** Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

e) **RELIANCE INDUSTRIES LIMITED:** Reliance Industries Limited (RIL) is an Indian conglomerate holding company headquartered in Mumbai, Maharashtra, India. Reliance owns businesses across India engaged in energy, petrochemicals, textiles, natural resources, retail, and telecommunications. Reliance is one of the most profitable companies in India, the largest publicly traded company in India by market capitalization, and the second largest company in India as measured by revenue after the government-controlled Indian Oil Corporation. On 18 October 2007, Reliance Industries became the first Indian company to breach $100 billion market capitalization. The company is ranked 203rd on the Fortune Global 500 list of the world's biggest corporations as of 2017. It is ranked 8th among the Top 250 Global Energy Companies by Platts as of 2016. Reliance continues to be India's largest exporter, accounting for 8% of India's total merchandise exports with a value of Rs 147,755 crore and access to markets in 108 countries. Reliance is responsible for almost 5% of the government of India's total revenues from customs and excise duty. It is also the highest income taxpayer in the private sector in India.

CEO: MUKESH AMBANI (31 JULY 2002 – PRESENT)

OWNER: MUKESH AMBANI (47.35%)

REVENUE: 6.23 lakh crores INR (US$ 87 BILLION, 2019)

II. NEED FOR THE STUDY

There are conceptual differences between Accounting Standards in India (AS) and the IFRS. Keeping in view the extent of gap between these two standards, convergence process would need careful handling. By introducing a new company law, the Indian Government has initiated the process to amend the legal and regulatory framework. The convergence would involve impact assessment, revisiting accounting policies and thereafter changing the accounting & operational systems in order to be fully compliant with IFRS.

III. OBJECTIVES OF THE STUDY

The main objective of this study was to identify differences between Indian GAAP from the corresponding IFRS in case of Reliance Industries Limited, by analysing the financial statements. The financial statement of RELIANCE INDUSTRIES LIMITED as at March 31, 2015 – 16 was considered in both IFRS and Indian GAAP. In other word the objectives of the study concentrate on:

- To analyse the financial statements of Reliance Industries Limited to examine the extent of differences between Indian GAAP and IFRS.

- To explain the difference between the International Financial Reporting Standards (IFRS) and Indian Generally Accepted Accounting principles (IGAAP).
- This study also aims to find out the contribution of IFRS and Indian GAAP in setting accounting standard.

IV. HYPOTHESIS

In context of the background, this study seeks to examine the following hypotheses:

H1: There exists difference in measurement of income under Indian GAAP and IFRS.

H0: There exists no difference in measurement of income under Indian GAAP and IFRS.

V. METHODOLOGY

In this article, investigators used financial statements of RELIANCE INDUSTRIES LIMITED as at March 31, 2016 to compare the statements based on IFRS as well as Indian GAAP.

In this article investigators extracted those items in the financial statement of RELIANCE INDUSTRIES LIMITED, which are affected by the application of IFRS and discussions are made about the reason of such changes.

According to Table1, we can absorb that there are differences between financial elements of RELIANCE INDUSTRIES LIMITED annual report under Indian GAAP and IFRS, hence there is differences on total non- current assets, total current assets, total assets, total non-current liabilities, total current liabilities, total liabilities.

VI. FINDINGS

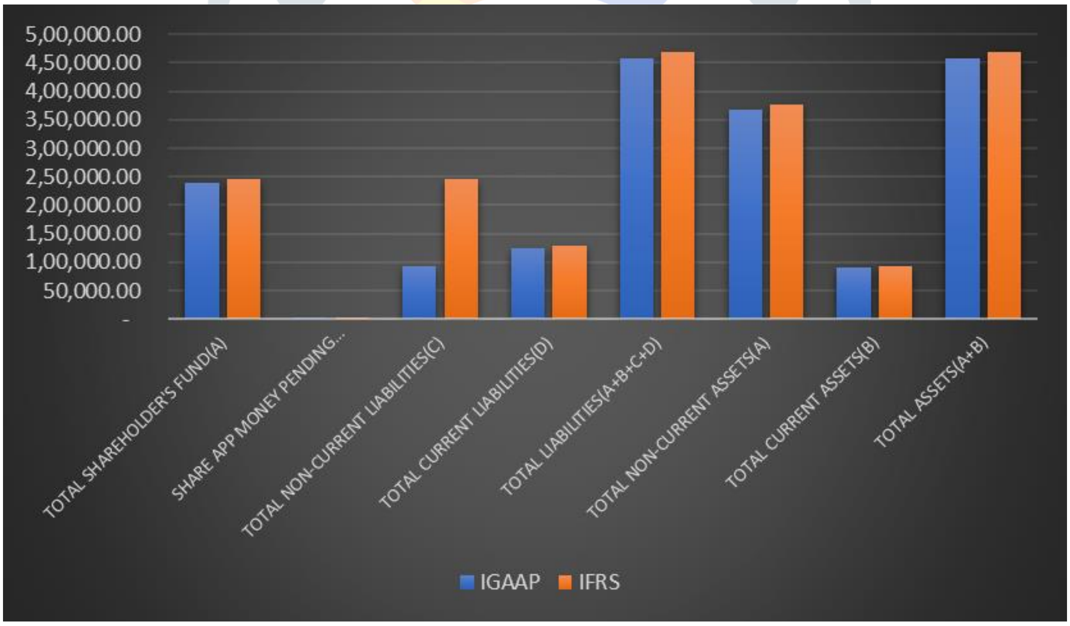
TABLE – 1

PARTICULARS	IGAAP 2016(₹)	IFRS 2016(₹)	IN CRORES EFFECT OF CHANGES TO IFRS
EQUITY & LIABILITIES			
SHAREHOLDER'S FUND			
Share Capital	3,240	3,321	81
Reserves & Surplus	2,36,936	2,42,911	5,975
TOTAL SHAREHOLDER'S FUND(A)	2,40,176	2,46,232	6,056
SHARE APP MONEY PENDING ALLOTMENT(B)	8	8	0
NON-CURRENT LIABILITIES			
Long Term Borrowings	77,866	79,830	1,964
Deferred Tax Liability(net)	13,159	13,491	332
Long Term Provisions	1,489	1,527	38
TOTAL NON-CURRENT LIABILITIES(C)	92,514	94,848	2,334
CURRENT LIABILITIES			
Short Term Borrowings	14,490	14,855	395
Trade Payables			
Micro, Small & Medium Enterprises	223	229	6
Others	54,298	55,667	1,369
Other Current Liabilities	54,841	56,225	1,384
Short Term Provisions	1,170	1,200	30
TOTAL CURRENT LIABILITIES(D)	1,25,022	1,28,176	3,154
TOTAL LIABILITIES(A+B+C+D)	4,57,720	4,69,264	11,544
ASSETS			
NON-CURRENT ASSETS			
FIXED ASSETS			
Tangible Assets	91,477	93,790	2,313
Intangible Assets	39,933	40,943	1,010
Capital Work-in-Progress	97,296	99,756	2,460
Intangible Assets Under Development	9,583	9,825	242
Non-Current Investments	1,12,630	1,15,478	2,848
Long Term Loans&Advances	16,237	16,647	410
TOTAL NON-CURRENT ASSETS(A)	3,67,156	3,76,439	9,283
CURRENT ASSETS			
Current Investments	39,429	40,426	997
Inventories	28,034	28,743	709
Trade Receivables	3,495	3,583	88
Cash & Bank Balances	6,892	7,066	174
Short Term Loans & Advances	11,938	12,240	302
Other Current Assets	776	795	19
TOTAL CURRENT ASSETS(B)	90,564	92,853	2,019
TOTAL ASSETS(A+B)	4,57,720	4,69,292	11,572

TABLE – 2

PARTICULARS	IGAAP	IFRS
TOTAL SHAREHOLDER'S FUND(A)	2,40,176.00	2,46,232.00
SHARE APP MONEY PENDING ALLOTMENT(B)	8.00	8.15
TOTAL NON-CURRENT LIABILITIES(C)	92,514.00	2,46,240.15
TOTAL CURRENT LIABILITIES(D)	1,25,022.00	1,28,176.00
TOTAL LIABILITIES(A+B+C+D)	4,57,720.00	4,68,264.15
TOTAL NON-CURRENT ASSETS(A)	3,67,156.00	3,76,439.00
TOTAL CURRENT ASSETS(B)	90,564.00	92,853.00
TOTAL ASSETS(A+B)	4,57,720.00	4,69,262.00

FIGURE – 1



6.2 IFRS 9 and AS 13 (Recognition and Measurement of Financial Instruments)

Quoted investments measured at cost under Indian GAAP have been classified as Available-for-Sale financial assets under IAS 39, Financial Instruments – Recognition and Measurement and remeasured at fair value. Changes in the fair value of these financial assets are recognized directly in equity through the statement of changes in equity. It is due to recognition of financial instruments.

Interest-bearing loans and borrowings have been restated to amortized costs using the effective interest rate method under IAS 39, Financial Instruments – Recognition and Measurement, with the discount being accreted through the Profit and Loss account.

6.2.1 IFRS 9 (Financial Instruments)

6.2.1.1 Measurement

An entity shall recognize a financial asset or a financial liability in its statement of financial position, when it becomes party to the contractual provisions of the instrument. At initial recognition, an entity shall measure a financial asset or financial liability at its fair value, plus or minus or through profit or loss when not at fair value of the financial asset or financial liability or through transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

When an entity uses settlement date accounting for an asset that is subsequently measured at amortized cost, the asset is recognized initially at its fair value on the trade date.

6.2.1.2 Recognition

An entity recognizes all its contractual rights and obligations under derivatives in its statement of financial position as assets and liabilities, respectively, except for derivatives that prevent a transfer of financial assets from being accounted as sale. If a transfer of a financial asset does not qualify for no recognition, the transferee does not recognize the transferred asset as its asset. The following are examples of applying the principle:

(a) Unconditional receivables and payables are recognized as assets or liabilities when the entity becomes a party to the contract and, therefore, has a legal right to receive or a legal obligation to pay cash.
(b) Assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognized until at least one of the parties has performed under the agreement. For example, an entity that receives a firm order does not generally recognize an asset (and the entity that places the order does not recognize a liability) at the time of the commitment but, rather, delays recognition until the ordered goods or services have been shipped, delivered or rendered.
(c) Option contracts that are within the scope of this IFRS are recognized as assets or liabilities when the holder or writer becomes a party to the contract.
(d) Planned future transactions, no matter how likely, are not assets and liabilities because the entity has not become a party to a contract.

AS 13 requires investments to be categorized as follows:

(a) Current investments: are those readily realizable and intended to be held for less than one year, are carried at lower cost and fair value, with changes in fair value taken directly to profit or loss.
(b) Long-term investments: are those investments not classified as current, are carried at cost unless there is a permanent diminution in value, where a provision for diminution is required to be made by the entity.

For investments, Reserve Banking India regulations require similar classifications to IFRS, but the classification criteria and measurement requirements differ from those set out in IFRS.

Financial liabilities are usually carried at cost. There is no ability to designate instruments at fair value.

6.3 International Accounting Standard 37 and Accounting Standard (AS) 29 (Provisions, Contingent Liabilities and Contingent Assets)

Under Indian GAAP, provision for overlay has been accumulated on straight line basis while in IFRS the same is being built up in accordance with the provisions of IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

The main difference is in recognition in IFRS Contingent Liabilities are to be included in Net Assets at fair value but in Indian GAAP Contingent liabilities are not recorded as Liabilities.

Under the International Financial Reporting Standards (IFRS) a provision is a liability, under IFRS it is described as Income Tax Payable. Similarly, warranty costs are treated as an expense under GAAP and a liability under IFRS.

The objective of AS 29 is to ensure that appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities and that sufficient information is disclosed in the notes to the financial statements to enable the users to understand their nature, timing and amount. Further, the Standard seeks to lay down appropriate accounting principles for contingent assets. Under AS 29, IFRS defines provisions as liabilities of uncertain timing or amount. A provision should be recognized only when:

a) an entity has a present obligation (legal or constructive) as a result of a past event.

b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and

c) a reliable estimate can be made of the amount of the obligation.

The Standard notes, that, it is only in extremely rare cases a reliable estimate will not be possible. The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the end of the reporting period. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

The estimates of outcome and financial effect are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting period.

Provision is measured before tax, as the tax consequences of the provision, and changes in it, are dealt with under IAS 1.

6.4 Accounting Standard (AS) 22 and IAS 12 (Deferred Tax)

Under Indian GAAP, deferred tax liability has been recognized on timing difference while in IFRS, it's been recognized on temporary differences.

Accenting Standard (AS) 22 Taxes on Income advocates income statement approach. Under this approach, profit as per books is compared with profit as per tax. Then, deferred tax is created on all timing differences. Timing differences are the differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods. No deferred tax is created on permanent differences.

6.4.1 IFRS

A deferred tax asset is recognized if it is probable that enough taxable profit will be available against which the unused tax losses and tax credits can be utilized.

IFRS requires entities to account for taxation using the Balance Sheet liability approach which focuses on temporary difference between the carrying amount of an asset or liability in the statement of financial position and its tax base.

A deferred tax asset should be recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised, unless the deferred tax asset arises from:

The initial recognition of an asset or liability other than in a business combination, at the time of the transaction, does not affect the accounting or the taxable profit.

Deferred tax assets for deductible temporary differences arising from investments in subsidiaries, associates, branches and joint ventures should be recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference will be utilised.

6.4.2 Indian GAAP

Deferred tax assets are recognised (a) if realisation is virtually certain for entities with tax losses carry forward, whereas (b) if realisation is reasonably certain for entities with no tax losses carry-forward.

Deferred tax is accounted for using the Income statement approach, which focuses on timing difference.

Deferred tax is not recognised as it is a permanent difference.

VII. CONCLUSION

Many developing countries and countries with economies in transition strive to mobilize financial resources from domestic and international sources to attain their economic and social development goals. The availability of relevant information on potential investment targets has bearing efforts on mobilizing investment for financing economic and social development. Such information plays an important role in making critical investment decisions and conducting risk assessment. It also contributes to improved investor confidence and decreased cost of capital.

Over the years, attracting financing needed for eco-nomic development has become more competitive. Economic resources have become more mobile across borders. Enterprises that provide potential investors with reliable and comparable financial statements are more likely to attract domestic and international investment.

RELIANCE INDUSTRIES LIMITED also tried to provide reliable and comparable financial statements based on both IFRS and Indian GAAP to attract domestic and international investment. By considering RELIANCE INDUSTRIES LIMITED financial statement we can absorb that there are differences between IFRS and Indian GAAP.

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