Analysis of Convergence Process towards International Financial Reporting Standards in India: A Case Study of Selected Indian Companies

***Mohd Anam Akhtar, **Dr. Ravindra Tripathi**
*Senior Lecturer, Department of Business Administration **Assistant Professor, Department of Humanities & Social Sciences, United College of Engineering & Research, Motilal Nehru National Institute Technology, Allahabad. Mob- +918756613055 Allahabad, Mob- +919451053756, anam4u2000@gmail.com , ravindra@mnnit.ac.in

Abstract

Financial Reporting and the art of financial reporting are as important as the business itself. With the process of globalization there is a change in the way business is being carried out. Companies are nowadays crossing borders in search of business and capital and getting themselves registered in the stock exchanges of the other nations in order to attract investors. These companies are required to prepared their financial statements in the method of financial reporting which is being followed in that particular country. As in spite of the efforts of the IASB each country follows a different methodology for financial reporting therefore converting a set of financial statements as per a method followed at other country is a tedious task for such multinational organizations. This lead to the requirement of harmonization of accounting standards across the globe or what we can say towards the development of global accounting standards which are better known as International Financial Reporting Standards issued by IASB and comprises of International Accounting Standards 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). But when the method of financial reporting is going to be changed that is definitely going to affect the items of the financial statements Blanchette Michel et al. (2012) due to the difference between the national GAAP and IFRSs. The IFRSs are primarily based on the concept of fair value based accounting that is also a reason behind the difference in the value reported under IFRSs and GAAP. All the countries which have converged their accounting standards as per IFRSs have found an impact on the financial ratios. India is also thinking about converging its financial reporting from Indian GAAP to IFRSs soon earlier they have established a dead line also in the form of 1st April 2011 but somehow that dead line could not be followed. Therefore this research paper tries to evaluate the future impact of IFRSs adoption on the financial ratios of Indian companies by taking case of three Indian companies which are already using IFRSs for financial reporting.

Keywords: Financial reporting, IFRSs, financial ratios, impact, Indian companies.

Introduction

International Financial Reporting Standards (IFRSs)

IFRS is a set of international accounting standards stating how particular types of transactions and other events should be reported in the financial statements. The basic purpose of such thing is to bring about uniformity in the language of business that is reporting. This will help in listing of companies across borders. The term IFRSs in itself comprises of IFRSs as issued by the IASB, IAS issued by IASC, the interpretations issued by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. (**Ghosh, 2009)**

Need For IFRSs

Accounting information is used for the purpose of decision making process especially by the investors hence it is very important that the information could be derived out of the financial statements easily.
Along with the globalization business comes the globalization of the language of the business that is accounting.
Demand of high quality accounting information has increased over the period of time and will continue to do so in future also.
Globalization of the accounting is also a part of the complete globalization package which comprises of globalization of corporates, governance, culture etc.
To open up market for all investors and corporates also they can easily get themselves registered. **(ICAI, 2011)**

Need for the Study

According to the standard setting bodies across the globe IFRSs is the need of the hour for the business world because it can save the corporates from the tedious job of convergence of their books of accounts as per the standards followed in the country where they want to be listed. Professionals are desirous of bringing about uniformity in the manner in which financial statements are prepared across the globe in other to promote globalization of business and investments in true sense. India also do not want to lag behind in the race of convergence of accounting standards & also because IFRSs enhances transparency of the financial statements. Though a lot has been said and done about IFRSs but there still remains a gap in making the concept clear in true sense and evaluating the areas of difference and benefits. This study tries to overcome this limitation and makes an attempt to make the concept clear, evaluate the key areas of difference and the aspects of accounts that are going to affected after the implementation of IFRSs in India, it also makes an humble effort to evaluate the infrastructural requirement for implementing IFRSs and makes an analysis of India’s preparedness.

Nature & Scope of the Study

I have tried to follow case study method in order to measure the impact of IFRSs on the key accounting figures of select companies from India which are already on IFRSs in order to enhance the acceptability of their financial statements. Moreover, the study covers Indian companies & regulatory authorities for the purpose of better convergence towards IFRSs which is going to be applicable in India shortly further the study focuses on overall accounting infrastructure & support for the same.

Rationale of the Study

Since India decided to converged the Indian Accounting Standards to International Financial Reporting Standards therefore chosen this area for research, in order to evaluate the readiness of Indian corporates, present level of accounting & financial infrastructure, audit requirements for smooth convergence process, analyze the areas impacted by the convergence process & suggest steps required to be taken by the regulatory bodies like ICAI, RBI, SEBI, IRDA etc for the successful of convergence of Accounting Standards in India.

Objectives of the Study

IFRSs are relatively a newer concept and the entire globe is trying to understand the dimensions of IFRSs. The objectives of this study therefore are to facilitate the reader:

1. To study and analyze the present system of financial reporting followed by the Indian companies.
2. To study the concept of IFRSs.
3. To identify and analyze the infrastructural requirements for implementing IFRSs in India and evaluate the present infrastructure to know how much prepare we are for implementing IFRSs.
4. To evaluate the key accounting figures those are going to be affected once IFRSs are going to be implemented.

Limitations of the Study

Although I have tried to come up with the best possible form of research work on IFRSs which could facilitate the user in getting acquainted with IFRSs and also knowing the probable impact of implementing IFRSs on the key accounting ratios in specific terms but like any kind of research work this study also carries certain limitations which are as follows:

1. Though India has shown commitment towards the convergence process but companies in India are still reluctant to adopt IFRSs on various grounds like lack of awareness, investments, skilled personnel etc because of this I found it difficult to take more number of different Indian companies from different sectors for case study and accounting ratio analysis.
2. Though ICAI has already come up with a concept paper on IFRSs but still there is lack of quality research work in India on the probable convergence process though internationally there is a lot of work done by researchers in this area.
3. When the accounting professionals were approached they were always in a hurry so this lack of time shown by the accounting professionals also had an impact on the quality of the study.

But Inspite of all the above mentioned limitations this study is an honest and sincere effort to come up with a novel kind of work and with new dimensions in India.

Review of Literature

There is a widely held belief by proponents of International Financial Reporting Standards (IFRSs), that financial statements prepared for this purpose meet the common needs of most potential users (Barth *et al*. 2007). In principle, to provide high quality financial statements, which satisfy the above description, a company needs to be aware who the potential user is. In particular, we distinguish the following types of users: shareholders, investors; creditors; suppliers and trade creditors;

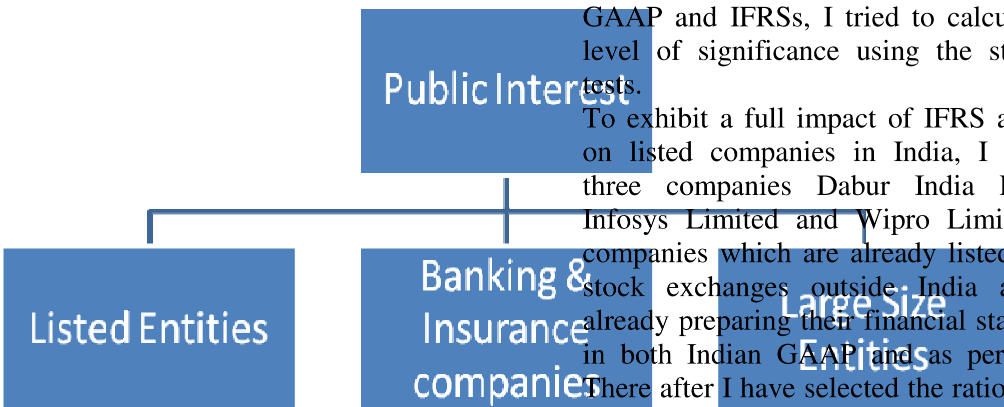
employees; competitors; government and public. Moreover, every user require different type of information about the same item, as all of them have different needs, for instance, shareholders use the information from the financial statements in order to determine a company's financial position, and whether or not they are going to invest or disinvest in it; creditors use the information provided in financial statements to assess the capability of a company to repay its debt in the long-term; suppliers want to assess the capability of the firm to repay their invoices in the short-term before they decide to grant short-term credit; employees use financial statement data to get an idea about the financial health of the company; government use financial statements for several purposes, including for determining taxable income, controlling compliance with regulation or making decisions about government grants to certain industries. However, in most cases, not all the information required is likely to be included in the financial accounts, or is included, but in improper way. In principal, several common characteristics need to be satisfied.

Jendrichovska (2008) states that accounting information needs to be directed to the particular user, and due to this several general points emerge about the necessary features and general qualitative characteristics of accounting. Qualitative characteristics are the attributes that are crucial for decision usefulness (Obaidat A. 2007). According to Jendrichovska (2008), accounting information needs to be relevant, as the accounting report must give the user what he/she wants and be useful for decision-making purposes. Information has the quality of relevance when it influences the economic decisions of users by helping them to evaluate past, present or future events or confirming or correcting, their past evaluations. Other important aspects of high quality accounting are understandability and reliability of financial statements. According to Alexander *et al*. (2009), an essential quality of the information provided in financial statements is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, as they also point out, information about complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded merely on the grounds that it may be too difficult for certain users to understand. Further, as noted above, to be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent. However, information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading**.** Jendrichovska (2008) also believes that the information should be complete and objective, as it should provide a total picture of the reporting business, which implies a large and complex collection of data. More importantly, according to her, reports should not be biased by personal perceptions (information contained in financial statements must be neutral). I also tried to evaluate the impact of IFRSs adoption on the financial statements of other countries. Blanchette Michel et al. (2012) talk about the inherent difference between national GAAP and IFRSs and analyzed its impact on financial statements. Similarly, Iatridis G., (2010) also mentions the difference between IFRSs and UK GAAP and analyzed impact of IFRSs convergence on the financial statements of companies in UK.

Convergence Road map for India:

1- Companies with a net worth of Rs1000 crore and those which are a part of BSE Sensex, Nifty and companies listed in overseas exchanges.
2- All companies with a net worth between Rs 500-1000 crore.
3- Banks and Non-Banking Financial Companies (NBFC).
4- All listed companies with a net worth of Rs 500 crore or less.

Keeping in view the complex nature of IFRSs and the extent of difference with the existing Accounting Standards and the corresponding IFRSs therefore the ICAI is of the view that IFRSs should be adopted by **public interest entities**. Fig-2



(ICAI, 2011)

Research Gap

On the basis of review of literature done it was found that there is no specific study on comparative analysis of Indian GAAP with IFRSs emphasizing likely impact and consequences. Further there is no conclusive case study based analysis found in the review of literature showing the impact of IFRSs adoption on financial figures of Indian companies.

Research Design

The goal of this study is to examine key accounting ratios after conversion from Indian GAAP to IFRS. Moreover, it also tries to confirm Lantto and Sahltström's (2009) statement, that there are no substantial differences between IFRS and accounting standards under common law regime. To do this, the ratios before and after the conversion need to be calculated, and eventually a statistical test need to be performed to check whether those differences are significant.

To perform the study, first of all, I calculate the differences between financial statement items, which I use later to calculate selected ratios. Once the ratios are calculated under both form of reporting done under Indian GAAP and IFRSs, I tried to calculate the level of significance using the statistical tests.

To exhibit a full impact of IFRS adoption on listed companies in India, I selected three companies Dabur India Limited, Infosys Limited and Wipro Limited, the companies which are already listed on the stock exchanges outside India and are already preparing their financial statements in both Indian GAAP and as per IFRSs. There after I have selected the ratios on the basis of which my analysis is based. Following Lantto and Sahltström (2009), I investigated - three profitability ratios: Operating Profit Margin (OPM), Return on Equity (ROE), Return on Capital Employed (ROCE); one liquidity ratio: Current Ratio (CR); and further I have also taken Debt/Equity ratio (Solvency ratio); Asset Turnover Ratio (Activity ratio); Net Profit margin ratio. I have also measured the impact of Depreciation under both Indian GAAP and IFRSs.

Generally, I calculated the difference between Indian GAAP based ratios and IFRS-based ratios (IFRS ratio – Indian GAAP ratio), and test the statistical significance of the differences using non parametric - Wilcoxon Signed-Rank Test. I did not calculate the Gearing Ratio (GR) and Quick Ratio (QR) as Lantto and Sahltström (2009) did, because many reconciliation statements of companies did not provide necessary data.

Due to this two-step process, I will be able to explain how the financial statement items changed after the conversion to IFRS, and eventually, which of them caused the major changes in the selected financial ratios.

Purposive Sampling

The study follows Purposive Sampling technique, whereby I have selected three Indian companies which are already preparing their financial statements as per both Indian GAAP and IFRSs because they are also listed into stock exchanges outside India and as per listing requirements there they are required to prepare their financial statements as per IFRSs. I have taken the financial statements of two different years of all the three companies that is Dabur India Limited; Infosys Limited and Wipro Limited for the purpose of calculating the difference between the financial ratios calculated under both Indian GAAP and IFRSs regime.

Data Collection

For the purpose of analysis I have collected data through the financial statements of these above mentioned entities which due to the legal requirement of the stock exchanges where they are listed across globe prepared their financial statement as per IFRSs. Due care is taken in order to ensure that the financial statements carry an explicit statement from the auditors that they are in accordance with IFRSs.

Pilot Study

I have also conducted a pilot study during the tenure of my study whereby I tried to get the opinion of the accounting professionals from India and Australia (as certain accounting professionals over there offered help) through a questionnaire. The questions included the ideal phase of convergence to IFRSs that is whether it should be three phased as proposed in India or some other method should be followed; the companies that should be covered under various phases of convergence; and the probable areas of impact once IFRSs is implemented and the infrastructural requirements. Though I received feedback from Australia from various accounting professionals and CPAs as IFRSs is already followed over there. But the response is very poor from India where most of the professionals claimed that they are still attending various classes offered by ICAI on IFRSs so they are not in a position to say anything; others were not sure from when it is going to be applicable in India hence not interested; some though gave their opinion but doubted the actual affected areas of financial statement in their opinion it can only be ascertained properly once IFRSs is fully adopted; therefore the results of the pilot study conducted by me were not significant at all.

Hypotheses

Taking into account the results of Blanchette Michel et al. (2012), Asbitt's (2006) and Dunne's (2008) study we can notice that standards which differ the most, and which as a result might have the most significant impact on accounting figures, are those where fair value accounting is incorporated. The fair value accounting introduces some level of volatility into financial statements and due to this, it is highly probable that accounting numbers may violate up and down depending on the current market condition (Clarkson *et al*. 2010).

In this study, I have shown the impact of IFRS adoption by calculating selected financial ratios that is why, I set the following hypotheses; the reason for taking null hypotheses (H_0)is that so far there is no study being done in Indian scenario showing the impact of IFRSs adoption on accounting ratios.

Hypotheses 1: Transition from Indian GAAP to IFRSs has no impact on Operating Profit Margin (OPM).

Hypotheses 2: Transition from Indian GAAP to IFRSs has no impact on Return on Equity (ROE). .

Hypotheses 3: Transition from Indian GAAP to IFRSs has no impact on Return on Capital Employed (ROCE).

Hypotheses 4: Transition from Indian GAAP to IFRSs has no impact on Earnings Per Share (EPS).

Hypotheses 5: Transition from Indian GAAP to IFRSs has no impact on Current Ratio (CR).

Hypotheses 6: Transition from Indian GAAP to IFRSs has no impact on Debt/Equity Ratio.

Hypotheses 7: Transition from Indian GAAP to IFRSs has no impact on Asset Turnover Ratio.

Hypotheses 8: Transition from Indian GAAP to IFRSs has no impact on Net Profit Margin Ratio.

Hypotheses 9: Transition from Indian GAAP to IFRSs has no impact on Depreciation.

Tools and Techniques Used

For the purpose of data analysis and interpretation accounting ratios and statistical tools are used in the study. I calculated the difference between Indian GAAP based ratios and IFRS-based ratios (IFRS ratio – Indian GAAP ratio), and test the statistical significance of the differences using non parametric - Wilcoxon Signed-Rank Test. I have used SPSS for the purpose of data analysis.

Data Analysis

Ratio analysis is used for the purpose of calculating ratios under IFRSs and Indian GAAP. Financial statements of two years for each company are selected and then ratios are calculated.

Dabur India Limited:

First of all ratio analysis of Dabur India Limited is calculated for the year ending 31st March, 2009.

Ratio	Indian GAAP	IFRSs	Difference (Indian GAAP-IFRSs)
Operating Profit Margin	17.74%	15.43%	2.31%
Return on Equity (ROE)	50.60%	41%	9.60%
Earnings Per Share (EPS)	4.31	4.48	- 0.17

Return on Capital Employed (ROCE)	48.41%	45.64%	2.77%
Current Ratio (CR)	1.12 : 1	1.55 : 1	- 0.43
Debt/Equity Ratio	0.19 : 1	0.26 : 1	-0.07
Asset Turnover Ratio	2.90	2.95	-0.05
Net Profit Margin Ratio	15.59%	13.80%	1.79%
Depreciation	21,045	5024*	16021

*Depreciation is amortized under IFRSs.

Ratio Analysis of Dabur India Limited for the year ending 31st March, 2010.

Ratio	Indian GAAP	IFRSs	Difference (Indian GAAP- IFRSs)
Operating Profit Margin	18.45%	17.47%	0.98%
Return on Equity (ROE)	57.83%	39.50%	18.33%
Earnings Per Share (EPS)	4.98	5.65	-0.67
Return on Capital Employed (ROCE)	50.68%	47.65%	3.03%
Current Ratio (CR)	1.05: 1	2.08: 1	-1.03
Debt/Equity Ratio	0.15: 1	0.31: 1	-0.16
Asset Turnover Ratio	3.38	2.73	0.65
Net Profit Margin Ratio	15.17%	14.45%	0.72%
Depreciation	23,628	6250*	17,378

*Depreciation is amortized under IFRSs.

5.2 Infosys Limited

Ratio analysis of Infosys Limited for the year ending 31st March, 2011.

Ratio	Indian GAAP	IFRSs	Difference (Indian GAAP- IFRSs)
Operating Profit Margin	33.15%	33.86%	-0.71%
Return on Equity (ROE)	26.30%	24.99%	1.31%
Earnings Per Share (EPS)	112.26	119.45	-7.19
Return on Capital Employed (ROCE)	37.58%	33.72%	3.86%

Current Ratio (CR)	5.05: 1	6.50: 1	-1.45
Debt/Equity Ratio	0.001: 1	0.012: 1	-0.011
Asset Turnover Ratio	3.81	1.00	2.81
Net Profit Margin Ratio	25.38%	25.81%	-0.43%
Depreciation*	740	862	-122

*The amount of depreciation shown is the amortized value in both the cases.
Ratio analysis of Infosys Limited for the year ending 31st March, 2012.

Ratio	Indian GAAP	IFRSs	Difference (Indian GAAP- IFRSs)
Operating Profit Margin	32.19%	34.63%	-2.44%
Return on Equity (ROE)	28.46%	24.85%	3.61%
Earnings Per Share (EPS)	139.07	145.55	-6.48
Return on Capital Employed (ROCE)	40.87%	41.79%	-0.92%
Current Ratio (CR)	4.72: 1	6.35: 1	-1.63
Debt/Equity Ratio	0.0007: 1	0.0036: 1	-0.0029
Asset Turnover Ratio	4.51	1.01	3.50
Net Profit Margin Ratio	25.55%	25.65%	-0.10%
Depreciation*	794	937	-143

*The amount of depreciation shown is the amortized value in both the cases.

5.3 Wipro Limited

Ratio analysis of Wipro Limited for the year ending 31st March, 2009

Ratio	Indian GAAP	IFRSs	Difference (Indian GAAP- IFRSs)
Operating Profit Margin	21%	17.48%	3.52%
Return on Equity (ROE)	13.27%	13.26%	0.01%
Earnings Per Share (EPS)	26.81	26.66	0.15%
Return on Capital Employed (ROCE)	24%	25%	-1%
Current Ratio (CR)	1.72: 1	1.57: 1	0.15
Debt/Equity Ratio	0.40: 1	0.24: 1	0.16

Asset Turnover Ratio	2.33	3.74	-1.41
Net Profit Margin Ratio	13.83%	15.13%	-1.3%
Depreciation	25637*	6948	18689

*Under Indian GAAP accumulated depreciation is shown.

Ratio analysis of Wipro Limited for the year ending 31st March, 2010.

Ratio	Indian GAAP	IFRSs	Difference (Indian GAAP- IFRSs)
Operating Profit Margin	20.25%	20.37%	-0.12%
Return on Equity (ROE)	15.78%	23.46%	-7.68%
Earnings Per Share (EPS)	31.78	31.52	0.26
Return on Capital Employed (ROCE)	37.89%	24.66%	13.23%
Current Ratio (CR)	2.26: 1	1.91: 1	0.35
Debt/Equity Ratio	0.34: 1	0.14: 1	0.20
Asset Turnover Ratio	1.87	2.93	-1.06
Net Profit Margin Ratio	17.02%	16.96%	0.06%
Depreciation	42314*	7831	34483

*Under Indian GAAP accumulated depreciation is shown.

5.4 Testing of Hypotheses

Now, the financial ratios calculated under both Indian GAAP and IFRSs are processed statistically applying Wilcoxon signed-rank, which is a non-parametric test using SPSS.

Table 1: Hypotheses 1(Operating Profit Margin):

Indian GAAP	IFRSs	sign	Abs	Rank	Sign Rank
33.15	34.63	-1	1.48	3	-3
32.19	33.86	-1	1.67	4	-4
21.00	20.37	1	0.63	1	1
20.25	17.48	1	2.77	6	6
18.45	17.47	1	0.98	2	2
17.74	15.43	1	2.31	5	5

W value = 7, Mean Difference = -10.06
Sum of positive ranks = 14
Sum of negative ranks = 7
Z value = -0.7338

Critical value of W for N = 6 at p <_ 0.05 is 0. Therefore, the result is not significant. Hence, H_0 is rejected.

Table 2: Hypotheses 2 (Return on Equity):

Indian GAAP	IFRSs	sign	Abs	Rank	Sign Rank
57.83	41.00	1	16.83	6	6
50.60	39.50	1	11.1	5	5
28.46	24.99	1	3.47	3	3
26.30	24.85	1	1.45	2	2
15.78	23.46	-1	7.68	4	-4
13.27	13.26	1	0.01	1	1

W value = 4, Mean Difference = -7.46
Sum of positive rank = 17
Sum of negative rank = 4
Z value = -1.3628
Critical value of W for N = 6 at p <_ 0.05 is 0. Therefore, the result is not significant. Hence, H_0 is rejected.

Table 3: Hypotheses 3 (Earnings per Share):

Indian GAAP	IFRSs	Sign	Abs	Rank	Sign Rank
139.07	145.55	-1	6.48	5	-5
112.26	119.45	-1	7.19	6	-6
31.78	31.52	1	0.26	3	3
26.81	26.66	1	0.15	1	1
4.98	5.65	-1	0.67	4	-4
4.31	4.48	-1	0.17	2	-2

W value = 4, Mean Difference = -66.25
Sum of positive ranks = 4
Sum of negative ranks = 17
Z value = -1.3628
Critical value of W for N = 6 at p <_ 0.05 is 0. Therefore, the result is not significant. Hence, H_0 is rejected.

Table 4: Hypotheses 4 (Return on Capital Employed):

Indian GAAP	IFRSs	Sign	Abs	Rank	Sign Rank
50.68	47.65	1	13.03	6	6
48.41	45.64	1	2.77	2	2
40.87	41.79	1	6.08	4	4
37.89	33.72	1	4.17	3	3
37.58	24.66	1	12.92	5	5
24.00	25.00	1	0.52	1	1

W value = 3, Mean Difference = -5.74
Sum of positive ranks = 18
Sum of negative ranks = 3
Z value = -1.5724
Critical value of W for N = 6 at p <_ 0.05 is 0. Therefore, the result is not significant. Hence, H_0 is rejected.

Table 5: Hypotheses 5 (Current Ratio):

Indian GAAP	IFRSs	Sign	Abs	Rank	Sign Rank
5.05	6.50	-1	1.45	5	-5
4.72	6.35	-1	1.63	6	-6
2.26	2.08	1	0.18	1	1
1.72	1.91	-1	0.19	2	-2
1.12	1.57	-1	0.45	3	-3
1.05	1.55	-1	0.5	4	-4

W value = 1, Mean Difference = -3.7
Sum of positive ranks = 1
Sum of negative ranks = 20
Z value = -1.9917
Critical value of W for N = 6 at p <_ 0.05 is 0. Therefore, the result is not significant. Hence, H_0 is rejected.

Table 6: Hypotheses 6 (Debt-Equity Ratio):

Indian GAAP	IFRSs	Sign	Abs	Rank	Sign Rank
0.40	0.31	1	0.09	6	6
0.34	0.26	1	0.08	5	5
0.19	0.24	-1	0.05	4	-4
0.15	0.14	1	0.01	2	2
0.001	0.012	-1	0.011	3	-3
0.0007	0.0036	-1	0.0029	1	-1

W value = 8, Mean Difference = -0.08
Sum of positive ranks = 13
Sum of negative ranks = 8
Z value = -0.5241
Critical value of W for N = 6 at p <_ 0.05 is 0. Therefore, the result is not significant. Hence, H_0 is rejected.

Table 7: Hypotheses 7 (Asset Turnover Ratio):

Indian GAAP	IFRSs	Sign	Abs	Rank	Sign Rank
4.51	2.95	1	1.56	5	5
3.81	2.73	1	1.08	2	2
3.38	3.74	1	1.64	6	6
2.90	2.93	1	1.52	4	4

2.33	1.01	1	1.32	3	3
1.87	1.00	1	0.87	1	1

W value = 3, Mean Difference = 0.4
Sum of positive ranks = 18
Sum of negative ranks = 3
Z value = -1.5724
Critical value of W for N = 6 at p <_ 0.05 is 0. Therefore, the result is not significant. Hence, H_0 is rejected.

Table 8: Hypotheses 8 (Net Profit Margin):

Indian GAAP	IFRSs	Sign	Abs	Rank	Sign Rank
25.55	25.81	1	0.74	6	6
25.38	25.65	1	0.73	5	5
17.02	16.96	1	0.06	2	2
15.59	15.13	1	0.46	3	3
15.17	14.45	1	0.72	4	4
13.83	13.80	1	0.03	1	1

W value = 7, Mean Difference = -6.89
Sum of positive ranks = 14
Sum of negative ranks = 7
Z value = -0.7338
Critical value of W for N = 6 at p <_ 0.05 is 0. Therefore, the result is not significant. Hence, H_0 is rejected.

Table 9: Hypotheses 9 (Depreciation)

Indian GAAP	IFRSs	Sign	Abs	Rank	Sign Rank
42314	7841	1	34483	6	6
25637	6948	1	18689	5	5
23628	6250	1	17378	4	4
21045	5024	1	16021	3	3
794	937	-1	143	2	-2
740	862	-1	122	1	-1

W value = 3, Mean Difference = 12078.33
Sum of positive ranks = 18
Sum of negative ranks = 3
Z value = -1.5724

Critical value of W for N = 6 at p <_ 0.05 is 0. Therefore, the result is not significant. Hence, H_0 is rejected.

Results

On the basis of the ratio analysis and Wilcoxon signed rank test we derive the following results which are presented below in the form of a table:

Financial Ratio	Mean Difference	Z Value	W Value	P Value	Hypotheses
Operating Profit Margin	-10.06	-0.7338	7	0	Rejected
Return on Equity	-7.46	-1.3628	4	0	Rejected
Earnings Per Share	-66.25	-1.3628	4	0	Rejected
Return on Capital Employed	-5.74	-1.5724	3	0	Rejected
Current Ratio	-3.7	-1.9917	1	0	Rejected
Debt-Equity Ratio	-0.08	-0.5241	8	0	Rejected
Asset- Turnover Ratio	0.4	-1.5724	3	0	Rejected
Net Profit Margin	-6.89	-0.7338	7	0	Rejected
Depreciation	12078.33	-1.5724	3	0	Rejected

The table above provides us a clear picture of the difference that existed between Indian Accounting Standards and IFRSs. The selected financial ratios calculated of the various balance sheet items of the three companies under both IFRSs and Indian Accounting Standards are compared and then Wilcoxon signed rank test is applied to test the statistical significance. The table above shows that at 5 percent significance level the financial difference are tested statistically and then hypotheses are either accepted or rejected. In most of the cases there exists a significant difference when the financial ratios are calculated under IFRSs rather than Indian Accounting Standards.

Conclusion

On the basis of data analysis the following conclusions can be drawn:

Impact on Financial Statement items: On the basis of the findings of the research I concluded that adoption of IFRSs by Indian companies is going to affect a number of items of their financial statements including their profitability and financial strength. Like discussed in the previous part that the adoption process is going to affect Operating Profit Margin, Return on Equity, Current Ratio, Earnings Per Share, Return on Capital Employed, Debt- Equity Ratio, Asset- Turnover Ratio, Net Profit Margin Ratio and Depreciation. Hence we can see that the adoption process has a clear impact on financial position indicators of a company. More so the impact is relatively more on those items where fair valuation concept of IFRSs is applicable. Thus initially at the time of adoption the companies must prepare themselves for an impact on financial statements.

Impact on Investors' confidence: It can also be concluded that the adoption of IFRSs by Indian companies is also going to have a favorable impact on the confidence of the investors. They could be able to analyze the financial position of the companies much more accurately due the strict reporting and disclosure requirements of IFRSs. Under IFRSs the companies are also required to report all their assets on fair value basis so the investors can evaluate the financial position of the organizations much more accurately. The overseas investors who want to invest their capital in Indian companies would also feel more confident while investing.

Impact on Auditors: The auditors would also be in a comfortable position because the companies are required to disclose each and every information which is of material use of the users of the financial statements and take due care at the time of recording the value of transactions hence because of reporting requirements under IFRSs the companies would by themselves take great care at the time of reporting but the auditors task would be difficult in the sense that reporting under IFRSs on certain parameters would be completely different from Indian GAAP.

Impact on the Government: The government is also going to gain when the companies adopt IFRSs because of the strict disclosure requirements and fair valuation reporting as this is going to reduce the chances of tax evasion on the part of the companies. Due to fair value concept and componentization and amortization of depreciation it becomes difficult for the companies to conceal their real financial status.

Impact on the companies: The implementation of IFRSs is also going to benefit the adopting organizations a lot as they can approach a wide market for the purpose of raising capital after implementing IFRSs. Presently the companies who want to get themselves register at any foreign stock exchange have to prepare their financial statements as per the instructions of the regulatory authority there but almost all the countries recognize the authencity of the financial statements prepared under IFRSs. If the statements are already prepared under IFRSs then it is much easier for the Indian companies to get themselves register in any foreign nation.

Impact on the users of financial statements: The financial information delivered by the statements prepared under IFRSs is considered to be of the highest quality therefore it is also going to have a favorable impact on the confidence level of the users of the financial statements whether they are investors, auditors, students, stake holders, institutions, accountants, legal firms or any academicians; all accept the reliability of the financial statements prepared under IFRSs.

Recommendations & Suggestions

On the basis of data analysis and findings the following recommendations can be made with regards to convergence of Indian GAAP to IFRSs:

Proper communication: Proper communication between the authorities and corporates is extremely vital for the purpose of ensuring an smooth convergence process in India. The benefits of convergence should be made clear to the corporates so that they can make a cost benefit analysis before deciding whether to implement IFRSs or not. Presently the corporates are worried about the cost that is required to be incurred for the convergence and the impact on the financial reporting. It should therefore be made clear to them that convergence of their financial statements would lead to a favorable image of the corporates in the eyes of the stake holders which is more vital for them and the cost is only a one time expenditure, further they can also raise money from the international stock market.

Efforts on the part of ICAI: In order to ensure proper and smooth implementation of IFRSs convergence process it is very important for the ICAI to make certain efforts like organizing regular seminars and workshops in order to ensure the availability of skilled personnel specialized in the area of IFRSs once the convergence process is implemented. ICAI should also act like a motivator for the industries as well as for the accounting professionals. It should organize seminars and workshops in all major cities of India, it can also organize such events for the accounting professionals working in the corporates within the premises of the companies which are going to be covered under the first phase of convergence in India so that they can be well aware of the reporting and disclosure related requirements under IFRSs and the area of difference between Indian GAAP and IFRSs.

Accounting professionals exchange programmes: ICAI should also promote accounting professionals exchange programme in India with countries which are already using IFRSs for financial reporting in order to ensure the availability of accounting professionals specialized in the field of IFRSs in India. Charted Accountants and accounting professionals should be sent in teams to the countries like Australia, Canada, European Union etc which are already on IFRSs so that they can learn the each and every requirement of IFRSs and can help the companies and other professionals at home in developing a proper infrastructure for applying IFRSs and ensure a smooth convergence process at home.

Revision of accounting curriculum at schools and college level: The government must also work on revising the syllabus of accounts at schools and college level and including the introductory chapters on IFRSs in the same. This is going to be beneficial at a later stage when the students opt for becoming professional accountants or enter into any organization then atleast they are having a basic idea of IFRSs structure and contents beforehand.

Initiative from the government: If the private organizations are skeptical about applying IFRSs in their organization for the purpose of financial reporting then the initiative of implementing IFRSs must come from large government organizations and public sector undertakings in order to boost the confidence of the smaller organizations like US is also thinking about making IFRSs mandatory for the public limited company.

Efforts on the part of regulatory bodies: Efforts should also be made on the part of the regulatory bodies like Securities and Exchange Board of India (SEBI), Indian Banking Association (IBA), Reserve Bank of India, Institute of Charted Accountants of India (ICAI), Insurance Regulatory and Development Authority (IRDA) are required to be made in order to make infrastructural changes for facilitating convergence in their respective sectors. They should start promoting IFRSs in each and every sector particularly the organizations which are going to fall under the first phase of convergence.

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Annexure

Motilal Nehru National Institute of Technology
Department of Humanities & Social Sciences
Allahabad (Uttar Pradesh), India

Questionnaire

This Questionnaire is a part of PhD. work being undertaken on the topic **"Analysis of convergence process towards International Financial Reporting Standards in India: A case study of select Indian companies."** The data collected from this survey will be used for academic purpose only. I would be thankful for sparing your valuable time for the research cause.

Please answer the following questions:

1- Respondent Profile:
   (a) Name: (optional)
   (b) Age:
   (c) Designation:
   (d) Qualification:
   (e) Name of company:
   (f) Type of company:
   (g) Contact No.: (optional)
   (h) Email Id:

2- Present system of Accounting:
   (a) AUS GAAP
   (b) US GAAP
   (c) IFRS
   (d) AUSGAAP & IFRS

3- Reason behind shifting from AUS GAAP to IFRS: (rank in terms of preference from 1 to 4)
   (a) Legal Requirement
   (b) Greater Transparency
   (c) Global Competition
   (d) Limitation of present system

4- Time required for complete transition:
   (a) 1 Year
   (b) 2 Year
   (c) 3 Year
   (d) 4 Year

5- Infrastructure for adopting IFRS in Australia:

(a) Strong
(b) Moderate
(c) Weak
(d) No Infrastructure

6- Support from **regulatory** body for convergence to companies:
(a) Strong
(b) Moderate
(c) Weak
(d) No Support

II. Convergence Process:

1- What should be the ideal phase for convergence:
(a) 2 phase
(b) 3 phase
(c) 4 phase
(d) 5 phase

2- Rank the companies that should be covered in different phases of convergence:
(a) Transnational Companies
(b) Multinational Companies
(c) Australian Government Companies
(d) Australian Public Limited Companies
(e) Private Companies
(f) SMEs
(g) NGOs & other organizations.

3- Applicability of IFRS provisions should be adopted:
(a) All together
(b) In parts
(c) Comparatives (following IFRS & AUSGAAP both)

1. High Impact 2. Moderate Impact 3. Less Impact 4. Very Less Impact 5. No Impact at all

III. Impact of Convergence:

S. No.	**Impacted parameter**	**1**	**2**	**3**	**4**	**5**
1.	Depreciation	[ ]	[ ]	[ ]	[ ]	[ ]
2.	Equity	[ ]	[ ]	[ ]	[ ]	[ ]
3.	Retained Earnings	[ ]	[ ]	[ ]	[ ]	[ ]
4.	Asset value	[ ]	[ ]	[ ]	[ ]	[ ]
5.	Revenue	[ ]	[ ]	[ ]	[ ]	[ ]
6.	Earning Per	[ ]	[ ]	[ ]	[ ]	[ ]

	Share					
7.	Provisions & Contingencies	[ ]	[ ]	[ ]	[ ]	[ ]
8.	Shareholders' wealth	[ ]	[ ]	[ ]	[ ]	[ ]
9.	Contingent Liability	[ ]	[ ]	[ ]	[ ]	[ ]
10.	Consolidation	[ ]	[ ]	[ ]	[ ]	[ ]
11.	Business Combination	[ ]	[ ]	[ ]	[ ]	[ ]
12.	Amortization	[ ]	[ ]	[ ]	[ ]	[ ]
13.	Currency Transition	[ ]	[ ]	[ ]	[ ]	[ ]
14.	Lease Contract	[ ]	[ ]	[ ]	[ ]	[ ]
15.	Investment	[ ]	[ ]	[ ]	[ ]	[ ]
16.	Investors' Confidence	[ ]	[ ]	[ ]	[ ]	[ ]
17.	Legal Reporting	[ ]	[ ]	[ ]	[ ]	[ ]
18.	Financial Window Dressing	[ ]	[ ]	[ ]	[ ]	[ ]
19.	Goodwill	[ ]	[ ]	[ ]	[ ]	[ ]
20.	Legal Competitiveness	[ ]	[ ]	[ ]	[ ]	[ ]
21.	Global Competitiveness	[ ]	[ ]	[ ]	[ ]	[ ]
22.	Transparency	[ ]	[ ]	[ ]	[ ]	[ ]
23.	Disclosure Aspect	[ ]	[ ]	[ ]	[ ]	[ ]
24.	Comparability	[ ]	[ ]	[ ]	[ ]	[ ]
25.	Corporate Governance	[ ]	[ ]	[ ]	[ ]	[ ]
26.	Transfer Pricing	[ ]	[ ]	[ ]	[ ]	[ ]
27.	Merger & Acquisition	[ ]	[ ]	[ ]	[ ]	[ ]
28.	Discontinued operations	[ ]	[ ]	[ ]	[ ]	[ ]

Any Suggestions:
**…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
………**

Thanking You,

Mohd. Anam Akhtar
Research Scholar,
Motilal Nehru National Institute of Technology
Department of Humanities & Social Sciences
Allahabad (Uttar Pradesh) (India)

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