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The Impact of IFRS Adoption on Key Financial Ratios- An Analysis of Wipro

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Abstract: *A number of multi-national companies are establishing their businesses in various countries with emerging economies. Different accounting framework and guidelines for different countries have created confusion for users of financial statements. India, being an emerging economy calls for convergence of Indian Accounting Standards (Indian GAAP) with International Financial Reporting Standards. An attempt has been made to assess the impact of IFRS adoption upon the key financial ratios of Indian company namely Wipro Ltd. The study has been conducted from the year 2009-10 to 2014-15. Debt Equity ratio, debt to total assets ratio, current ratio, net profit ratio, return on capital employed and return on equity ratios have been used in the study to arrive at an empirical conclusion. Empirical analysis revealed that the IFRS adoption will create a significant impact on debt to total assets ratio, net profit ratio, return on capital employed ratio and return on equity owing adoption of fair value measurement, differential revenue recognition norms, differential valuation of deferred tax asset and liability etc.*

Keywords*:* *IFRS, Indian GAAP, IFRS implementation, ratios*

1. Introduction and the need for IFRS

Forces of globalization and liberalization have turned the way business is being conducted. In the era of rapid industrialization and increasing cross border transactions it would be appropriate to refer to the world as an economic village. Global diversification of portfolio has become an important issue of fund management therefore global financial reporting is a need of hour which would help to increase understandability of financial statements. Advanced telecommunication system has increased communication amongst countries; free trade and outsourcing have opened up many business opportunities for new and existing business. Due to advanced technology it is now possible to own a business in one country and do business in another part of the globe. A number of multinational companies are establishing their business across the world. Emerging economies have immense participation in international trade and cross border transactions. Government of emerging economies has adopted a liberal view towards foreign investment and trade. Entities in emerging economies are increasingly accessing the global capital market to fulfill their need of capital. Governments in emerging economies are promoting multinational corporations to establish their businesses in developing nations. To survive with the forces of globalization, it is necessary that India should match the international standards in all respects be it, infrastructure, intellectual capital or international reporting.

India ranks at third place after United States and China on the basis of Gross Domestic product, 2012 on the basis of Purchasing Power Parity (World Development Indicators, 1 July 2013) and has been ranked at twentieth place in world merchandise trade, 2010 (World Trade Organization). In 2010 India's export and import of world merchandise trade summed to 220 billion dollars and 327 billion dollars respectively (World Trade Organization). In 2011-12 World Economic Forum came out with The Global Competitiveness Report 2011-12 which includes Global Competitive Index (GCI) of countries based on their business culture, GCI Index ranks countries based on 12 variables like quality of institutions, labor market efficiency, financial market development, infrastructure etc. India ranks 56th out of 142 economies in the year 2011-12. India is an integral part of the globalized economy, being one of the fastest emerging economies of the world.

Foreign companies engaged in foreign direct investment are normally exposed to business environment and systems that are different from their home country. In such a scenario it is important that these foreign companies are aware of the country differences for the purpose of establishing or maintaining an efficient global operation. Harmonization of accounting standards constitutes an important issue as a company can find it difficult to follow different accounting standards for the same business in different countries. Differences in accounting standards can create additional burden on the companies. The diversity in standards would limit the transparency of financial statements, which is necessary for users of financial information to determine whether management has exercised sound corporate governance in regard to their investment and for the monitoring of regulators. Therefore it is inevitable to adopt the uniform accounting standards across the globe.

Unfortunately India has been hit by the accounting frauds like Satyam (2009) which has not only tarnished the image of India worldwide but investors have lost the confidence on the accounting statements. It would be worthwhile to quote here that not only India but worldwide economy has been victim of accounting frauds like Enron (2001) and Lehman Brothers (2008). The accounting frauds have significantly discredited the image of corporate leaders and professional accountants in the eyes of investors and public at large. The level of business ethics is under severe attack and the accounting profession under extreme inspection. Scenario of distrust exists between the shareholders and mangers at corporate level. Such a situation calls for the uniformity of accounting standards. As pointed out by Zeff (2007) that the differences in accounting requirements of different countries are associated with their unique legal, economic, social and political structures which results in differences in accounting standards. Different financial reporting and accounting requirements pose hardships for the users of financial statements in multi country consolidations and comparison of financial statements. (Prather-Kinsey, 2006)

An attempt to bring in parity in the reporting of financial statements has been made by the professional accounting bodies by trying to formulate a single set of accounting standards to be followed by the world. One of the recent developments in the field of standard setting is the International Financial Reporting Standards (IFRS).International Financial Reporting Standards (IFRS) is a single set of accounting standards that the corporate sector should adopt to prepare and communicate financial information to the stakeholders across the world. Financial statements that are based on common universal accounting principles will enable the world to exchange and analyze financial information in a meaningful manner. This builds a strong case for India to match itself with the international reporting practices. International Financial Reporting Standards are expected to improve the image of the Indian industry and the accounting profession in the eyes of the world. Among the finance and accounting fraternity International Financial Reporting Standards are considered as the global standards which every country should adopt.

Even though the Indian GAAPs are some of the most developed standards and have consistently and successfully benchmarked with the best standards and practices. Institute of Chartered Accountants of India (ICAI) expressed its view that adoption of IFRS will be beneficial for listed entities as it will reduce the cost of preparing two sets of financial statements and savings in cost of capital for Indian companies raising capital abroad. It is expected that implementation of IFRS would bring about improvement in the image of the Indian industry and Indian accounting profession across the globe. Implementation of IFRS is a challenging task and various issues like conflicting regulatory and legal framework, preparedness of industry and accounting professionals for the same and many more needs to be addressed. At present more than 140 countries have adopted or decided to adopt these standards (Patro.A et al, 2012). India was supposed to adopt them from 1st April 2011 but the decision was reversed and the IndAs (Indian version of IFRS) will be applicable from 1st April 2016. However, many corporates in India like Wipro, Infosys, DrReddys, Dabur are voluntarily preparing their financial statements as per IFRS.

2. What are IFRS?

International Financial Reporting Standards (IFRS) is a single set of accounting standards that the corporate sector should adopt to prepare and communicate financial information to the stakeholders across the world. IFRS are designed as a common global language of business affairs so that the financial statements are comparable and understandable across international boundaries. Financial statements that are based on common universal accounting principles will enable the world to exchange and analyze financial information in a meaningful manner. IFRS comprises of:

- International Financial Reporting Standards issued after 2001
- International Accounting Standards issued before 2001
- Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC)- issued after 2001
- Standing Interpretation Committee (SIC)- issued after 2001

3. Indian Accounting Standards

Indian GAAPs are issued by the Accounting Standards Board of The Institute of Chartered

Accountants of India. At present there are 32 accounting standards, some accounting standards are applicable to all type of entities while some are selectively applicable. The purpose of issuing accounting standards to bring about the uniformity in accounting practices across the country.

The Council of the ICAI, at its last meeting, held on March 20-22, 2014, has finalized the roadmap. The Ministry of Company Affairs has issued Companies (Indian Accounting Standards) Rules 2015. The accounting standards as specified in the annexure to these rules to be called the Indian Accounting Standards (Ind AS) shall be the accounting standards applicable to all classes of companies as follows:

(a) Phase I:- The following categories of companies will convert their opening balance sheets as at 1st April 2016, if the financial year commences on or after 1st April 2016 in compliance with Ind As. These companies are:

- All companies with net worth of Rs 500 crores or more whether listed (or in the process of listing at any stock exchange in India or outside India) or unlisted (including holding, subsidiary, joint venture or associates of such companies).

(b) The following categories of companies will convert their opening balance sheets as at 1st April 2017, if the financial year commences on or after 1st April 2017 in compliance with Ind As. These companies are:

- The companies whose equity and/or debt securities are listed or in the process of being listed on any stock exchange in India or outside India.
- Unlisted Companies having net worth of Rs 250 crores or more but less than Rs 500 crores.

(c) Voluntary adoption

- Any company may voluntary basis for financial statements for accounting periods beginning on or after 1 April 2015 or thereafter. But once followed it cannot be revoked subsequently.

4. Literature Review

With the ever increasing growth of multinational corporations there is an agency conflict. Companies are owned by shareholders while they are being managed by the directors and the management team who may or may not be the owners of the company. Divorce between ownership and management gives importance to Theory of Agency. Jensen and Mecking,(1976) states that the principal agent theory posits that information asymmetry exists between principals (shareholders) and agents (managers). Therefore it is important to ensure quality reporting to reduce information asymmetries. Quality financial reporting ensures better control on principal over agent. Lang and Lundholm,(1996) has pointed out in their study that the analysts precision and prediction has a positive association with the level of company's financial disclosure. Clarity of enforcement laws and litigations, sound accounting education system and other environmental motivating factors affect the incentives and competence of preparers, auditors and users of financial reports (Jacob.R.A et al 2009).

Various developed and developing countries of the world have either adopted IFRS or have set the deadline for adoption of IFRS. One of the developed nations of the world US has still not adopted IFRS. Djatej et.al (2012) in their research paper examined the behavioral attributes of US accounting practioners towards the early adoption of IFRS. Research is based on Theory of Planned Behavior (TPB) and survey method. TBP states that an individual's behavior is directly influenced by behavioral intentions which can be predicted as attitude, subjective norm and perceived control. The research findings commensurate with the TPB as an accountant's decision to adopt IFRS is significantly related with the subjective norms and the perceived control while attitude is not a significant factor. For attitude the author explained that social pressure and behavioral control play the major role therefore the attitude is not much important. In a similar type of study Ramana and Sletten (2009) concluded that a country is more likely to adopt IFRS if its trade partners or countries within its geographical region have adopted IFRS.

Perception studies of accounting experts have been conducted across the globe to study the implementation and adoption of IFRS. Jermakowicz&Gornik-Tomaszewski (2006) did the study from the perspective of European Union (EU) publicly traded companies by floating a questionnaire to a sample size of 112 companies in the year 2004. Based on the analysis of data author concluded that a majority of respondents have adopted IFRS for the purposes other than the consolidation basically to achieve harmonization in internal and external reporting but they would have not adopted IFRS has it not been required by EU regulation. The other conclusions of study are that the IFRS implantation process is costly, complex, burdensome, lacks implementation guidelines and uniform interpretation for key challenges. In a similar type of study conducted in US it was revealed that the investors of US companies (IFRS applicable) perceived the convergence benefit from IFRS adoption and welcomed the convergence projects between Financial Accounting Standards Board and International Accounting Standards Board but negatively reacted to the potential adoption of IFRS in the U.S (Lin and Tanyi, 2010). Guerreiro.M.S.et.al.(2012), did the survey based researched for the large unlisted companies for the implementation and adaption of IFRS (called SNC in Portugal). The study is associated with the institutional elements related with the successful adoption of IFRS. On the basis of empirical analysis author has concluded that participation of parent company in the decision making process regarding the conversion procedures, national ownership, mimetic behavior and export activities positively influence the preparedness of an organization for IFRS. Empirical results depicts that the type of auditors and the membership of accounting bodies does not affect the level of preparedness of the companies for IFRS.

In an online survey of Australian accounting professionals 38% of the accounting professionals felt that IFRS implementation had positive impact on the business while according to 26% of the respondents IFRS implementation had no impact on the business. Survey highlighted the fact that 80% of respondent strongly supported the need of simplification of IFRS for smaller organizations such as Small and Medium Enterprise and Not for Profit Organizations. (Grant Thorton, 2009). Similarly Bhattacharjee & Islam (2009) conducted the exploratory research into the benefits and challenges associated with the implementation of IFRS in Bangladesh. The study revealed that the implementation of IFRS was expected to bring the improvement in quality of financial statements through the adoption of uniform set of accounting standards. IFRS was expected to reduce accounting diversity resulting in an increase in cross border listings.

In a comprehensive study Dhar.S.et.al (2011) studied the impact of IFRS 2 share based payments on Indian Companies for the year 2007 and 2008. Findings revealed that stock option based compensation differs from entity to entity and recognition would have a substantial effect on the performance measures of 22% of the sample size for the year 2007 and 2008.

An exploratory research conducted by Hoque et al (2013) to study the economic consequences of adopting IFRS on the accounting conservatism, capital market effects using market liquidity, cost of capital and debt, earnings quality with considerations of earnings management and firm performance. It was evidenced that the adoption of IFRs impacts all the factors in different ways. The research concluded that the overall effect of the implementation of IFRS has been positive as the implementation of IFRS reduces the information asymmetry leading to the improvement in the quality of information for users and enhancing transparency and comparability of financial information. The study recommended that the development of appropriate mechanism for enforcement of accounting standards and the collaboration of accounting bodies across the world was considered to be important to reap the benefits of international accounting standards.

The relationship between the accounting standards and accounting quality has been a cause of much discussion among the accounting fraternity. Barth et al (2008) examined whether application of International Accounting Standards (IAS) is associated with higher accounting quality. It was inferred that the firms of 21 countries which were applying IAS evidence less earning management, more timely loss recognition and more value relevance of accounting amounts. Author has also compared the accounting quality for IAS firms in the period before and after they adopted IAS, concluded that accounting quality has improved between the pre and post adoption period. Similarly, Leuz et al. (2003) found that firms which prepare reports using IFRS engage in less earnings management when they are based in countries with developed equity markets, dispersed ownership structures, strong investor rights, and legal enforcement.

Another comprehensive study conducted by Daske.H (2006) to assess the quality financial statements after the implementation of IFRS in Australia, Germany and Switzerland revealed that disclosure quality increased significantly after the implementation of IFRS. The study made use of available disclosure quality scores extracted from detailed analyses of annual reports by reputed accounting scholars.

Lack of clear guidance from regulatory bodies and ambiguity regarding the provisions of various acts makes it difficult to implement IFRS. Implementation of IFRS will affect industries in different manners as every industry has its peculiarities. Indian banking industry is governed by Banking Regulation Act 1949 and the guidelines issued by Reserve Bank of India (RBI). An important study in this regard was done by Firoz.M.et.al (2011).India banks are required to maintain statutory liquidity ratio prudential norms. As per the RBI norms, banks are required to classify their investments under 'held to maturity' at amortized cost. IFRS 9 on financial instruments gives the option to carry financial instruments at amortized cost or fair value. Valuation at amortized cost is permitted only when the asset is held in the business model to collect the contractual cash flow and cash flows arise at specific dates for principal and interest payments. If the bank does not have a clear strategy to manage portfolio and established history of the business model, the entire portfolio has to be measured at fair value, causing volatility in financial statements. Similarly IFRS recognizes the impairment model for the assets of the organization as against the provisioning norms for advances as required by RBI. Implementation of IFRS will require the regulatory changes for different types of industries. For the banking industry IFRS will have major impact on advances, financial instruments, investments and losses arising due to revaluation of financial assets.

Similar type of study was conducted in European Union countries by Gebhardt and Novotny-Farkas (2011). The results indicate stricter application of IAS 39 has reduced the discretionary power of a bank which was evident from less income smoothening. Research also supported the notion institutions play an important role in shaping the financial reporting outcomes as it was evident that the effect of IAS 39 was less in the countries with stricter bank supervision, widely dispersed bank ownership and the for cross listed banks. In yet another study with European banks it was found that the application of stricter impairment rules reduces discretion in the main operating accrual in banks' accounts, the loan loss provision and, banks exhibit significantly less income smoothing (Gebhardt and Novotny-Farkas 2010). Whittington (2005) listed several instances where government in EU countries raised strong concern on the viability of IAS 39. Concerns were mainly raised by the banking industry as under IAS 39 banks were required to measure financial instruments at fair value. Fair value measurements were expected to increase the volatility in bank's balance sheet and earnings, which may affect the stability of financial institutions.

Mewawalla & Tulloch (2013) has developed an 'IFRS Impact Scorecard' on their research study. The scorecard assesses the risk of a fall in the share price of an Indian Company on the adoption of IFRS. The scorecard indicates the undervaluation or overvaluation of in share prices on the assumption that the company's financial statements are prepared on IFRS as compare to Indian GAAP. The author has rated company specific risk for each player in particular sector on a scale of one to five. Based on the scorecard approach 16 of top 50 Nifty 50 Index companies comes in low risk zone like Infosys, Tata Motors , HCL Technologies, etc. 17 companies lies in moderate risk zone like Cipla, Bajaj auto, Maruti Suzuki,etc and other 17 lies in high risk zone like Reliance Industries, Asian Paints , Punjab National Bank, etc. Authors have also observed that 88% of companies in India's Nify 50 Index does not report under IFRS.

In an exhaustive study conducted by Haribhakti.S (2008) as to the applicability of IFRS for listed and unlisted companies among the various countries of the world, it was observed that in majority of the countries all domestic listed companies are required to prepare the financial statements as per IFRS. Author took the sample of 123 countries of the world. Some of the countries included in the research are United Kingdom, Singapore, Newzeland, Italy, France, Germany, China, Australia etc. For the purpose of study author has divided the companies into two categories viz domestic listed companies and the domestic unlisted companies. Domestic listed companies have been observed for the applicability of IFRS in four categories viz IFRS not permitted, IFRS permitted, IFRS required for some and IFRS required for all. Domestic unlisted companies have also been observed for the applicability of IFRS.

There has been widespread debate as to the effect of IFRS earnings management practices Tendeloo & Vanstraelen (2005) in their study concluded, that without the possibility of using hidden reserves to manage earnings, IFRS-adopters turn more to discretionary accruals to manage their earnings while when hidden reserves were taken into consideration, IFRS adopters present the similar earnings management behavior as compared to companies reporting under German GAAP. The study also concluded that companies that have adopted IFRS engage more in earnings smoothing, but this increase in earnings smoothing with the adoption of IFRS is significantly reduced when the company has a Big 4 auditor. Paananen (2008) also concluded that the quality of financial reporting, measured by the degree of smoothing of earnings, decreased after the adoption of IFRS.

In a similar type of study Auer (1996) compared the informational content of earnings announcement (abnormal returns resulting from unexpected earnings) of sample Swiss firms using IFRS or European Committee Directive compliant accounting standards as compare to Swiss GAAP. The results indicated a significant increase in the variance of abnormal returns for firms adopting IFRS as compare to Swiss GAAP. The study concluded that earnings under IFRS have more information content than earnings based on Swiss GAAP, but not more than earnings based on European Committee Directives.

There have been major differences in the reporting and accounting practices of IFRS and Indian GAAP. These differences are expected to bring significant differences on the profitability, liquidity and capital structure of Indian Comapnies**.** Bahrgava & Shikha (2013) analyzed the consolidated financial statements of Wipro for the year ended 2012 as per Indian GAAP and IFRS. For the purpose of analysis liquidity and profitability ratios were calculated and reconciled as per Indian GAAP and IFRS. Study concluded that the variation in total assets and liabilities were due to the reclassification of equity and liabilities, differences in the concept of depreciation and valuation of fixed assets and revenue recognition criterion. A comparative study of financial statements as per Indian GAAP and IFRS of Wipro for the year 2009-2010 shows significant impact on leverage ratio, total equity and total liability position. However total assets position, return on equity, return on asset, total asset turnover and net profit ratio are not significantly affected by converging to IFRS. The author analyzed the significant changes and concluded that the change is attributed to fair value measurements as against the conservative approach in Indian GAAP.(Swamynathan.S andSindhu, 2013).

Similar type of studies have been conducted internationally also. Goodwin and Ahmed (2006) studied the impact of IFRS adoption on the net income, assets, liabilities and equities of the firms. For the purpose of study the author took financial statements for the year ended 31 December 2004 for 135 firms of Australia. Analysis indicates that the transition to IFRS has not been onerous for small firms. Small firms are required to make a fewer changes in equity and net income as compare to larger firms. Net income and equity has increased for smaller firms primarily due to deferred tax adjustments. For larger firms liabilities has increased by a wide margin resulting in the decrease of equity. The study concluded that the IFRS transition does not have as detrimental effect on small firms as on medium and large firms. These findings are consistent with another study conducted by Goodwin et al. (2007) which concluded that on an average IFRS has resulted in increase in liabilities and leverage ratios and a decrease in equity and earnings.

Aisbitt (2006) discovered in her study on the companies registered in UK, that the impact of IFRS adoption on company's equity seems to vary and the effect was attributable to company's individual accounting policies and circumstances rather than national differences in accounting. The study concluded that there was no particular pattern in changes in equity in the UK. The study identified the balance sheet items which may have the most significant impact on equity as Retirement benefits obligations, Property, plant and equipment, Deferred Tax assets, and Goodwill and Intangible assets.

In a study conducted on the financial statements of 80 German Firms for the year 1998-2002 in Germany by Hung & Subramanyam (2007) it was concluded that the value of total assets and equity and variation in book value and net income are significantly higher under IFRS as compare to German Accounting rules (HGB). Study further concluded that that under IFRS book value plays a more important role as compare to net income although there was no evidence to support that IFRS has improved the value relevance of either book value or net income. The authors concluded that IFRS adjustments to net income are generally value irrelevant and IFRS adjustments to book value were found to be generally relevant. The findings of Bartov et al (2005) were inconsistent with those of Hung & Subramanyam (2007) in which earnings as per German accounting rules are higher as compare to earnings under IFRS and US GAAP. The inconsistency may be due to two different samples as the sample used by Bartov et al (2005) is larger and includes all firms traded at German Stock Exchanges from 1999 to 2000.

Similar type of study was conducted by Stent et al (2010) on the listed companies of Newzeland Stock Exchange. Sample was further stratified into late adopters of IFRS and early adopters of IFRS. Sample includes the 101 late adopters of IFRS and 40 early adopters of IFRS. The study aimed to assess the impact of IFRS on the key financial elements namely assets, liability, equity, income and expenses. The scope of study further extends to examine the effect of IFRS adoption on key financial ratios namely return on equity, return on assets, leverage ratios, asset turnover and return on sales. The study concluded that the financial element most affected after migration to Newzeland IFRS was liabilities, income taxes and employee benefits were identified to be the main reason for the same. In 57% of companies it was observed that the equity has decreased. Financial Instruments was found to be the most important reason for the increase in assets for 26% of the companies. IFRS adoption had created a significant impact on all the key ratios except for asset turnover ratio. The study further concluded that the small firms were less significantly effected as compare to large firms and the impact of IFRS adoption on early and late adopters were found to be different.

Lu.M (2009) analyzed the financial statements of leading European pharmaceutical companies. These companies were previously prepared there financial statements based on US GAAP and subsequently converted to IFRS. Analysis revealed that under IFRS, current ratio and return on assets increases, asset turnover tends to decrease and debt to equity ratio decreases. The results further revealed that the upon the adoption of IFRS research and development expense decreased and the intangible assets increased despite of the fact that development cost was not capitalized.

Harris and Muller (1999) examined the reconciliation statements between IFRS and US GAAP prepared by the firms under Form 20F. The results of the study indicated that the differences in earnings and book values of equity are insignificant between IFRS and US GAAP and the differences was found to be much more smaller between US GAAP and any other accounting standard.

5. Mapping of IFRS with Indian GAP

Table 1 shows the mapping of Indian GAAP with IFRS.

Table 1. Indian GAAP and corresponding IFRS

Indian Accounting Standard (Indian GAAP)	Corresponding IFRS
AS 1- Disclosure of Accounting Policies	IAS-1 Presentation of Financial Statements
AS-2 Valuation of Inventories	IAS-2- Inventories
AS 3 Cash Flow statements	IAS-7 Cash Flow statements
AS 4 Contingencies and events Occurring after the Balance Sheet Date	IAS-10 Events after the Reporting Period
AS 5 Net Profit or Loss for the period, prior period items and Changes in Accounting Policies.	IAS-8 Accounting Policies, Changes in Accounting Estimates and Errors
AS 6 Depreciation Accounting AS 10 Accounting for Fixed Assets	IAS-16 Property, Plant & Equipment
AS 7 Construction Contracts	IAS 11 Construction Contracts
AS 9 Revenue	IAS-18 Revenue
AS 11 The Effects of Change in Foreign Exchange Rates	IAS 21 The Effects of Change in Foreign Exchange Rates
AS 12 Accounting for Government Grants	IAS-20 Accounting for Government Grants and Disclosure of Government Assistance
As 14 accounting for Amalgamation	IFRS 3 Business Combinations
AS 16 Borrowing Cost	IAS-23 Borrowing Cost
As 17 Segment Reporting	IFRS 8 Operating segments
AS 18 Related Party Disclosure	IAS 24 Related Party Disclosure
AS 19 Leases	IAS-17 Leases
As 20 Earning per Share	IAS 33 Earning per Share
As 21 Consolidated Financial Statements	IAS 27 Consolidated and Separate Financial Statements
AS 22 Accounting for Taxes on Income	IAS-12 Income Taxes
AS 23 Accounting for Investments in Associates in Consolidated Financial Statements	IAS-28 Investments in Associates
As 24 Discontinuing Operations	IFRS 5 Non Current Assets held for Sale and Discontinued Operations
AS 25 Interim Financial Reporting	IAS-34 Interim Financial Reporting
AS 26 Intangible Assets	IAS-38 Intangible Assets
AS 27 Financial Reporting of Interests in Joint Ventures	IAS-31 Interests in Joint Ventures
AS 28 Impairment of Assets	IAS-36 Impairment of Assets Goodwill
AS 29 Provisions, Contingent Assets and Contingent Liabilities	IAS-37 Provisions, Contingent Assets and Contingent Liabilities
AS 32 Financial instruments Disclosure	IFRS 7 Financial instruments Disclosure
No equivalent Indian Accounting Standard	IAS-26 accounting and Reporting of Retirement Benefit Plan
No equivalent Indian Accounting Standard	IAS-29 Financial Reporting in Hyper Inflationary Economies
No equivalent Indian Accounting Standard	IAS-40 Investment Property
No equivalent Indian Accounting Standard	IAS-41 Agriculture
No equivalent Indian Accounting Standard	IFRS 2 Share Based Payment
No equivalent Indian Accounting Standard	IFRS 4 Insurance Contracts
No equivalent Indian Accounting Standard	IFRS 6 Exploration for & Evaluation of Mineral Resources

6. Research Gap and Objectives

India was supposed to implement IFRS from 1st April 2012 previously but the implementation was postponed and as per the Government decision now it will be applicable from 1st April 2016.

Some Indian companies started preparing dual set of financial statements prior to financial year ending 2012 in anticipation of IFRS implementation. At this juncture sufficient time has lapsed and it would be wise step to analyze the key financial ratios as per the Indian GAAP and IFRS financial statements.

In this study the financial statements of Wipro Ltd has been analyzed from the year 2009-2010 to 2014-2015. Consolidated financial statements as per Indian GAAP and consolidated financial statements as per IFRS have been analyzed to check the possible impact of IFRS transition on solvency, liquidity and profitability of the company. On the basis of abovementioned objectives, the following hypotheses are framed:

H1: Transition to IFRS from Indian GAAP has no impact on Debt Equity Ratio (D/E).

H2: Transition to IFRS from Indian GAAP has no impact on Debt to Total Assets Ratio(D/TA). .

H3: Transition to IFRS from Indian GAAP has no impact on Current Ratio (CR).

H4: Transition to IFRS from Indian GAAP has no impact on Net Profit Ratio (NP ratio)

H5: Transition to IFRS from Indian GAAP has no impact on Return on Capital Employed (ROCE).

H6: Transition to IFRS from Indian GAAP has no impact on Return on Equity (ROE).

7. Methodology

Based on existing literature six financial ratios have been selected for analysis. Lantto & Sahlstrom(2009) analyzed operating profit margin ratio, return on capital employed, return on invested capital, current ratio and Price Earnings ratio. In the present study analysis has been done by calculating debt equity ratio and debt to total assets ratio, For checking the liquidity position of the company current ratios has been calculated. Profitability position of the company has been checked through net profit ratio, return on capital employed and return on equity. As IFRS is not mandatory in India but some of the companies are preparing the IFRS financial statements voluntarily. Dual set of consolidated financial statements viz: Indian GAAP and IFRS were available for Wipro Limited from the year 2009-10 to 2014-2015. The selected financial ratios have been calculated as per Indian GAAP and as IFRS financial statements. Descriptive analysis for ratios has been presented by calculating mean, median, Standard Deviation, Skewness, Kurtosis, Minimum and Maximum using MS Excel. Further empirical analysis has been done using Wilcoxon Signed Rank Test.

8. Data Analysis

Wipro Limited (NYSE:WIT) provides comprehensive IT Solutions and Services, including Systems Integration, Information Systems Outsourcing, IT Enabled Services, Package Implementation, Software Application development and maintenance, and Research and Development Services to corporations globally. Wipro is a leader in providing IT Solutions and Services for the corporate segment in India. As of March 2015, the company has 160000+ employees servicing in 175+ cities in 6 continents. On 31 March 2015, the company posted revenues of $7.6 billion. Wipro's shares are listed National Stock Exchange and New York Stock Exchange. (wipro.com)

Table 2. Descriptive Statistics of Financial Ratios

Ratio	Mean	Median	Standard Deviation	Skewness	kurtosis	Minimum	Maximum
Financial Ratios calculated under Indian GAAP							
D/E	0.1310	.0780	.1270	1.1018	-0.1805	0.0200	0.3400
D/TA	0.3833	0.3800	0.0320	1.1896	1.6381	0.3500	0.4400
CR	2.1300	2.2200	0.1835	-1.2685	0.1804	1.8200	2.2700
NP ratio	0.1677	0.1700	0.0110	-0.7832	-0.1009	0.1500	0.1800
ROCE	0.2317	0.2250	0.0240	0.8786	-0.5002	0.2100	0.2700
ROE	0.2322	0.2328	0.0126	-1.0132	2.0561	0.2100	0.2476
Financial Ratios calculated under IFRS							
D/E	0.0900	0.0850	0.0420	0.0731	-2.4445	0.0400	0.1400
D/TA	0.3450	0.3450	0.0315	1.0401	1.6376	0.3100	0.4000
CR	2.3200	2.3150	0.2836	-0.2060	-0.9093	1.9100	2.6600
NP ratio	0.1402	0.1418	0.0111	-1.3580	2.1185	0.1200	0.1500
ROCE	0.1933	0.2000	0.0472	-0.5698	-0.2810	0.1200	0.2500
ROE	0.2190	0.2200	0.0118	-0.5652	0.4472	0.2000	0.2340
Differences between ratios calculated under Indian							

GAAP & IFRS							
D/E	0.0410	-0.0070	0.0851	1.0287	2.2640	-0.0200	0.2000
D/TA	0.0383	0.0350	0.0006	0.1495	0.0005	0.0400	0.0400
CR	-0.1900	-0.0950	-0.1001	-1.0625	1.0897	-0.0900	-0.3900
NP ratio	0.0276	0.0282	-0.0001	0.5748	-2.2194	0.0300	0.0300
ROCE	0.0383	0.0250	-0.0232	1.4484	-0.2192	0.0900	0.0200
ROE	0.0132	0.0128	0.0008	-0.4480	1.6088	0.0100	0.0136

Table 2 illustrates descriptive statistics of all six financial ratios, which were calculated as per Indian GAAP and as per IFRS financial statements. Mean and standard deviation (SD) of all financial ratios under Indian GAAP and IFRS have been calculated. Minimum and maximum has been displayed to provide some insight into the range between the ratios calculated under both standards. Finally, skewness was calculated to check the symmetry of the values around the mean and kurtosis, to check the normality of distribution. Similarly to Lantto and Sahlström (2009), the results indicate that the ratios are not normally distributed and there is a considerable variation in ratios. Owing to the fact that, the distributions of ratios were not normally distributed as high level of kurtosis was marked in case of Debt Equity Ratio a simple t-test was not used to test the statistical significance. Empirical analysis of the differences between the ratios calculated from the two set of financial statements has been done using Wilcoxon Signed-Rank Test. This test is the non-parametric version of a paired samples t-test that does not assume normal distribution.

Table 3 shows the empirical results of test which clearly indicates that transition to IFRS will affect the profitability position of the company as all the three profitability ratios were found to have the significant impact. Significant impact was also found on the Debt to Total Assets ratio. Empirical results indicate the difference in ratios for the two sets of financial statements were not significant for Debt Equity Ratio and Current Ratio. Significance level has been tested at 95% confidence level, hence in case profitability ratios and in debt to total assets ratio p is less than .05.

Table 3 Results of Wilcoxon Signed Rank Test

Ratio	P value	Result
D/E	.916	Accept H1
D/TA	.020	**Reject H2**
CR	.173	Accept H3
NP ratio	.027	**Reject H4**
ROCE	.026	**Reject H5**
ROE	.046	**Reject H6**

9. Analysis of Reasons of Differences For Ratios

Empirical analysis shows that there have been significant differences in debt to total assets ratio, net profit ratio, return on capital employed and return on equity. An analysis of causes of differences under both set of financial statements has been shown below:

- **Causes of difference between Debt to Total assets ratio**

The reclassification of secured loans and unsecured loans as termed under Indian GAAP into current and noncurrent liability under IFRS has been the cause of difference of debt under Indian GAAP. Unsecured loans are very high under Indian GAAP financial statements as compare to IFRS financials. Recognition principles for deferred tax liabilities, financial lease obligations and provisions have resulted in differences in total noncurrent liabilities. Differential principles of valuing derivative liability, accrued expenses, and advance from customers had contributed to the differences of debt under both set of accounting standards. Recognition of proposed dividend as current liability under Indian GAAP is another cause of difference as it is not recognized as current liability under IFRS. Differences was found between the total assets under Indian GAAP and IFRS. The differences in the valuation principles of provision for doubtful debts, investments, financial lease and advances to employees have contributed to the increase in current asset under IFRS. Non current assets were different Indian GAAP due to differences in valuation principles of goodwill, property plant & equipment, intangible assets and investments. Valuation of Property, Plant & Equipment has been different under both set of accounting standards due to interest capitalization and classification of operating lease.

- **Causes of difference between Net Profit ratio**

Earnings after Taxes (excluding other income) under Indian GAAP and IFRS were varying due to the differential recognition principles under both set of accounting standards. There have been differences in depreciation, amortisations, Employee stock option expense, deferred taxes, finance expense and share in earnings of associates and revenue recognition norms. Revenue under both set of financial statements has been varying due to the concept of multiple element arrangements under IFRS, treatment of cash payment to customers pursuant to sales promotion activities are treated as sales discount under IFRS and deducted from revenue while under Indian GAAP they were treated separately as cost. Other causes of difference under both set of accounting standards are treatment of excise duty. Differences in recognition principles for profit on sale of investments, interest income and exchange fluctuations had contributed to the difference between revenue under IFRS and Indian GAAP.

- **Causes of difference between Return on Capital Employed**

Earnings after Taxes before interest under Indian GAAP were not in agreement with IFRS financial statements due to the differential recognition principles for finance expenses under both set of accounting standards. The reclassification of secured loans and unsecured loans as termed under Indian GAAP into current and noncurrent liability under IFRS has been the cause of increase of debt under Indian GAAP. Unsecured loans are very high under Indian GAAP financial statements as compare to IFRS financials. Recognition principles for deferred tax liabilities, financial lease obligations and provisions have resulted in differences in total noncurrent liabilities. Differential principles of valuing derivative liability, accrued expenses, and advance from customers had contributed to the differences of debt under both set of accounting standards. Equity comprises of share capital which is approximately same under both the reporting standards. Under IFRS share application money received and pending allotment is reported under other liabilities whereas Indian GAAP requires share application money pending allotment to be presented separately from equity. Reserves and surplus have differed due to various recognition principles adopted under both set of accounting standards. Reserves and surplus have specifically decreased under Indian GAAP mainly due to differences of stock premium and share based payment reserves.

- **Causes of difference between Return on Equity**

Earnings after Taxes under Indian GAAP and IFRS were found to be different due to the differential recognition principles under both set of accounting standards. There have been differences in depreciation, amortizations, Employee stock option expense, deferred taxes, finance expense and share in earnings of associates etc. Equity comprises of share capital which is approximately same under both the reporting standards. Under IFRS share application money received and pending allotment is reported under other liabilities whereas Indian GAAP requires share application money pending allotment to be presented separately from equity. Reserves and surplus have differed due to various recognition principles adopted under both set of accounting standards. Reserves and surplus have specifically decreased under Indian GAAP mainly due to differences of stock premium and share based payment reserves.

10. Conclusion

The empirical results of the present study indicate that there are significant differences between the ratios calculated as per Indian GAAP and IFRS. More specifically, significant differences were found in all profitability ratios, though the impact was not found to be significant for debt equity ratio and current ratio. The significant impact on profitability ratios and debt to total assets ratios was consistent with the findings of Swamynathan.S and Sindhu (2013) & Bahrgava & Shikha (2013). Further investigation into the causes of differences between Indian GAAP and IFRS financial statements revealed that fair value measurement, revenue recognition norms, classification of assets and liabilities into current and noncurrent, share based payments and recognition of deferred tax assets and liabilities were some of the major contributory factors for differences.

Internationally also it was established that the adoption of IFRS will create significant impact on key financial ratios as stated by Goodwin et al. (2007), Goodwin and Ahmed (2006) and Aisbitt (2006). Lantto and Sahltström (2009); Dunne et al. (2008); Iatridis (2010), and Aharony *et al*., (2010), who stated that after the transition to IFRS, profitability and growth would be higher. Financial ratios have been significantly impacted due to varying recognition norms for revenue, advances and accrued expenses. Fair value measurement, share based payment reserves and valuation of deferred tax liabilities had significantly impacted the assets and liability situation of the company.

11. Limitations of Study

The present study is limited to a single company that is Wipro though there are other companies which are voluntarily disclosing the IFRS financial statements. Empirical analysis is based on the availability of IFRS financial statements.

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