

Conference Paper

A study of Effects and implications of differences between Indian GAAP and IFRS

Dr. Anubha Srivastava

Former Assistant Professor and HOD of Finance and Accounting , Amity Business School, Amity University, Expressway, Noida 201301 India

Abstract

Economic growth in any economy requires sustainable high quality financial reporting standards. However in the era of globalization, with rapidly changing rules and regulations in accounting world, Indian financial reporting system too cannot be isolated from the global developments. Lack of standardization in different accounting standards imposes a financial burden on all the stakeholders, which includes both internal as well as external burden to an organization. It is also too cumbersome for investors to compare the financial statement of corporates if they follow different accounting policy. It was felt that there should be one global set of accounting standards for all. Thus IASB came in existence and formulated IFRS. IFRS is high quality principle based accounting standards which aims to bring uniformity comparability and transparency in accounting world. In India the conversion process has started in 2015-16 onwards where all the accounting standards will be gradually fully converged with IFRS and will be named as Ind as. This paper attempts to find out the key difference among IFRS, Indian GAAP and ind AS and its implications. A questionnaire survey has been conducted to find out the implication of differences. The paper concludes that adoption of IFRS would benefit the economy in all aspects.

Corresponding Author:

Anubha Srivastava
 anusri2799@gmail.com

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1. Introduction

The history of accounting or accountancy in India dates back to Vedic times. Over the period of time the Indian economy rapidly changed. By the time India got independence and grew as an economy, various issues emerged with regard to standardization of financial reporting faced by other economies. The Indian economy was not an exception and faced many such issues over the passage of time. Hence in order to overcome various accounting regulations related issues, Generally Accepted Accounting Principles or (GAAP), which is a set of accounting principles were introduced. These accounting principles are adhered and supported by the authoritative bodies

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of accounting professionals. The name given to these sets of principles is Indian Accounting Standards and is notified by the Ministry of Corporate Affairs. There is an influence on Indian GAAP by several standard setters and influenced by Statute, namely Companies Act, Income Tax Act, Banking Regulation Act, Insurance Act etc. and directions from regulatory bodies like RBI, SEBI, and IRDA. To maintain generalization among accounting standards for the multinational companies which are in India as well as Indian Companies have become multinational, the Ministry of Corporate Affairs adheres to International Financial Reporting Standards. The Ministry of corporate affairs announced the process of conversion Indian accounting standards (Ind AS) In February 2011, and have notified 35 Ind AS till date. further the roadmap to adopt the Ind AS has been proposed by ICAI in march 2014. There are still few key differences between the Indian GAAP and IFRS and Ind AS.

1.1. International Financing Reporting Standards

The need for high quality Accounting standards came into existence with emergence of increase in import and export, investors looking for investment opportunities in different countries, when stakeholders are from more than one country, when an organization is required to meet statute of more than one country and more such issues faced by listed companies. To meet these issues, a common set of rules and regulations, along with generalization of accounting policies was required. These accounting policies were recommended for the organizations and well as for the accounting professionals. These recommended outlines must have grown over the period of time and came up as International Financial Reporting Standards (IFRS). In 2001 International Accounting Standards Board (IASB) was established to develop International Financial Reporting Standards (IFRS). After a year, European Union (EU) member states committed to requiring IFRS for all listed corporations in their jurisdictions effective year 2005 (EC, 2002). The first IFRS was issued in 2003, and by then at least 19 countries showed their compliance with the international standards. Since then, nearly 70 countries have mandated IFRS for all listed companies. About 23 countries have either mandated IFRS for some listed companies or allow listed companies to voluntarily adopt IFRS. However, as of 2007, at least 40 countries continue to require domestically developed accounting standards over IFRS, and this list includes large economies like Brazil, Canada, China, Japan, India, and US.

1.2. Indian GAAP, Ind AS and IFRS

Indian GAAP is rule based accounting rules for companies operating in India whereas IFRS is principle based high quality standards applicable across glob/. Though IFRS is not mandatory but more than 150 countries have already adopted their local STD with IFRS. Conversion or adoption of IFRS would bring down the cost of capital and improve the accounting quality in India. The accounting standards are converged with IFRS and given name as Ind As. The Ind AS are numbered in the same way as the corresponding IFRS. The purpose of the study is to highlight the key differences between Indian Gaap, Ind As and IFRS and find out effect of such differences on the financial statement of the corporates.

2. Literature Review

According to Achalapathi and Sireesha (2015) the adopting IFRS has led to a significant increase in liquidity, profitability and valuation ratios. Further he stated that convergence to IFRS provided an opportunity for protection against failure risk and capital maintenance. Müllera (2014) concluded from his findings that IFRS adoption has led to increase in quality of consolidated statements. It also leads to better complying with the OECD Corporate Governance Principle of high quality disclosure and transparency. **Sawcen Chebaane (2014)** mentioned in his research the effect of IFRS on book value of equity and earning per share which was based on the price model. His findings helped to conclude that this mandatory adoption of IFRS increases the level relevance of value in emerging economies between earnings per share and value of equity. **Urcan and Louis (2015)** found in his study that prior to adoption of IFRS there were less cross-border mergers and acquisitions. But adoption of IFRS has led to increase in cross-border M&A because of its reporting comparability. **Jagolinzer Brochet and Riedl (2011)** discussed the **effects** of adopting IFRS in his paper and explained how it affects comparability of financial statements. According to **Horton and Serafeim (2008)** the market were affected because of the results of the IFRS reconciliation adjustments. There was delay in communication of bad news by the managers. He also concluded that positive adjustments to be value relevant both before and after disclosure while negative adjustments are value relevant only post disclosure, and this reflected in investor's behavior that were reluctant to trade. **Soderstrom and Jialin Sun (2010)** explained in his paper that how the quality of IFRS implication depends on these three factors 1) the quality of the standards, 2) a country's legal and political system, and 3)

financial reporting incentives. **According to Nagesh (2011)** the IFRS is a relationship between mind and institutions and this linkage affects economy of country which is trying to integrate itself to the global economy. **Serafeim Horton and Serafeim (2012)** concluded that the mandatory adoption to IFRS leads to forecast accuracy and quality of the information environment improve significantly. It was also observed that there was a larger improvement in forecast accuracy where there was a larger difference between IFRS earnings and local GAAP earnings. This increased confidence that the IFRS adaptation causes improvement in information environment. As per **Chen Tang Jiang and Lin (2010)** when other factors held constant IFRS has a positive impact on financial reporting. **Cascino and Gassen (2014)** explained in his research that only firms with high compliance incentives experience an economically and statistically significant increase in comparability around IFRS adoption. **Brüggemann Daske Homburg and F Pope (2012)** examined that the global IFRS adoption has enhanced cross-border equity investments by individual investors. **Carlin and Finch (2008)** suggested that how inadequate knowledge of IFRS and its deficiencies in the technical procedures used by firms, puts their goodwill balances to impairment assessments. **Ramanna and Sletten (2009)** worked on the network theory to investigate why there is heterogeneity in countries' decisions to adopt IFRS. They concluded that the countries internalize the network effects of IFRS in their adoption decisions, and it suggests that as the network benefits from IFRS get large, countries may adopt the international standards even if the direct economic benefits from such standards are inferior to those from locally developed standards. Also the direct benefits are represented by both the net economic and net political value of IFRS over local standards. **Daske Hail Leuz and Verdi (2013)** examined the countries on the following three factors on their adaptability towards IFRS; these were based on various organizational attributes, organizations actual reporting behavior, and the external pressure from the reporting environment. These factors concluded that the countries adopted IFRS either due to incentives for reporting outcomes and their capital-market effects.

3. Research Methodology

With the increasing globalization, both transparency and comparability in financial reporting is required. Both developed and developing economies are currently adopting or in the process of adoption of the International Financial Reporting Standards (IFRS). This study focuses on key differences and its implications on Indian corporate world. This study is descriptive as well as exploratory in nature. The paper aims to highlights

the major differences between Indian GAAP, Ind AS and IFRS. The research involves gathering information from various secondary and primary sources. Secondary sources include research papers, journals and financial statements of various organizations. Primary data is collected through a questionnaire which incorporates questions related to IFRS and Indian GAPP and its impact on Indian corporate sector. For this purpose respondent has been divided into two categories a) Chartered Accountant/ finance professionals b) Academician. The sample size of professional is 50.

Objective of the research --Following are the objective of the paper

- To highlight the Key differences between Indian GAAP, Ind AS and IFRS.
- To find out the extent of adaptability with
 - Effect of key differences on various key variables of financial statements.
 - Opportunities and threat in conversion with IFRS.

TABLE 1: Differences between Indian GAAP and IFRS.

Key Differences	Indian GAAP	IFRS	Ind AS
Inventories IAS 2	The formulae used in determining the cost of inventory is selected with a view to provide fairest possible approximation to the cost, bringing the item to present location and condition.	Same cost formula is used for all inventories having a similar nature and use to the entity. For different products or different use of products, different formula is used.	Ind AS 2 Similar to IFRS.
Cash flow statement IAS 7	Exemption to small and medium enterprises is given. It is mandatory to disclose dividend and interest is under financing activities only, except for financial enterprise.	No exemption to small and medium enterprises is given. Dividend and interest can be disclosed either under operating activities or financing activities, depending upon case to case.	Ind AS 7 Similar to IFRS.
Changes in accounting policy IAS 8	The cumulative effect of change is included in the income statement for the period in which the change is made. As specified in certain standards (transitional provision), the change during the transition period resulting from adoption of the standard has to be adjusted against opening retained earnings and the impact is to be disclosed.	Retrospective effects of changes in accounting policies are done. Comparatives are also restated and the effect of period(s) not presented is adjusted against opening retained earnings of the earliest year present. Policy changes made because of the adoption of a new standard is made in accordance with that standard's transitional provisions.	Ind AS 8 Similar to IFRS.

Key Differences	Indian GAAP	IFRS	Ind AS
Functional and presentation currency IAS 21	Concept of functional or presentation currency is not present. Entities in India are supposed to prepare their financial statements in Indian rupees.	When the financial statements are presented in a currency other than the functional currency, assets and liabilities are translated at the exchange rate of the balance sheet date. Items in income statement are translated at the exchange rate at the date of transaction or at on average rate.	Ind As 21 Similar to IFRS. However, an entity may continue the policy adopted for exchange differences arising from translation of long-term foreign currency monetary items recognized in the financial statements for the period ending immediately before the beginning of the first Ind AS financial reporting period as per previous GAAP
Revenue recognition IAS 18	Revenue from service is recognized on the basis of completed service contract method or on percentage of completion method. No concept of discounting.	Revenue from services is recognized only on percentage of completion method. If amount are receivable after twelve months, then the sales and receivables are accounted at discounted values.	Ind AS 18 is similar to IFRS
Government grants IAS 20	Capital grants are treated as a part of shareholders fund. Revenue grants are treated as income over one or more periods.	Capital grants are deferred and matched to the depreciation of the asset for which the grant arises. Revenue grants are deferred in the balance sheet and incorporated in the income statement to match the related expenditure, intended to compensate.	Ind As 20 similar to IFRS 20 Similar to IFRS. However, grants related to assets, including non- monetary grants at fair value, should be presented in the balance sheet only by setting up the grant as deferred income.
Consolidation IFRS 10	Similar to IFRS, except that to determine control, currently exercisable voting rights are not considered.	When the Group has the power to govern the financial and operating policies so as to obtain benefits, the entities are consolidated. When the Group owns more than one half of an entity's voting power, the control is presumed to exist. While determining whether control exists or not, currently exercisable voting rights should also be taken into consideration.	Ind AS 110 is similar to IFRS. However and entity would not measure the investment at fair value coz As 40 does not allow that

Key Differences	Indian GAAP	IFRS	Ind AS
Consolidation of Special Purpose Entities IFRS 11	Special Purpose Entities including employee share trusts are not consolidated. Further no specific guidance is given.	Under the IASB's Standards Interpretations Committee (SIC) Interpretation 12 (SIC-12), an SPV should be consolidated when the substance of the relationship between an enterprise and the SPV indicates that the SPE is controlled by that entity. The definition of an SPV includes employee share trusts.	Ind AS 111 Similar to IFRS11
Business combinations IFRS 3	Treatment of combination of business entities depends on whether the acquired entity is held as a subsidiary, whether it is an amalgamation or whether it is an acquisition of a business. For an entity acquired and held as a subsidiary, the business combination is accounted for as an acquisition. The acquired assets and liabilities incorporated at their existing carrying amounts.	All business combinations are treated as acquisitions. Assets, contingent liabilities and liabilities acquired are measured at their fair values. Use of pooling of interest method is prohibited.	Similar to IFRS except that Ind AS 103 contains guidance on common control transactions
Goodwill IFRS 3	Goodwill arising as a result of amalgamations is capitalized and amortized over useful life. Usually the life is taken as for five years, unless a longer period can be justified. For goodwill arising on acquisition of an entity, there is no specific guidance. In practice there is either no amortization or amortization not exceeding 10 years.	IFRS 3 requires that goodwill arising on all acquisitions is capitalized but not amortized, and is subject to an annual review for impairment. Under the transitional provisions of IFRS 1, the Group has not applied IFRS 3, or its predecessor IAS 22, to transactions that occurred before 1 January 2004, the date of transition to IFRS.	Similar to IFRS Ind As 103
Acquired and internally generated intangible assets IAS 38	Intangible assets are capitalized if specific criteria are met. Such assets are amortized over their useful life, which is generally not exceeding 10 years. Where the is being amortized over a period exceeding 10 years or recoverable amount of an intangible asset that is not available for use, should be reviewed at least at each financial year-end even if there is no indication that the asset is impaired.	Intangible assets are recognized if the specific criteria are met. Assets with a finite useful life are amortized on a systematic basis over their useful life. An asset with an indefinite useful life and which is not yet available for use should be tested for impairment annually.	Ind As 38 Similar to IFRS

Key Differences	Indian GAAP	IFRS	Ind AS
Property, plant and equipment IAS 16	Fixed assets are recorded at historical costs or revalued amounts. If certain criteria in AS-16 are met then relevant borrowing costs are capitalized. Depreciation is recorded over the asset's useful life as per the rates mentioned in schedule XIV of the Companies Act and Banking Regulations prescribe minimum rates of depreciation and these are typically used as the basis for determining useful life.	Fixed assets are recorded at cost or revalued amounts. Under the transition rules of IFRS 1, the Group elected to freeze the value of all its properties held for its own use at their 1 January 2004 valuations, their 'deemed cost' under IFRS. They will not be revalued in the future.	Ind AS 16 Similar to IFRS
Recognition and measurement of Financial Instruments IAS 39	AS 13 requires investments to be categorized as follows: Current investments which are can be readily realizable and are intended to be held for less than one year, are carried at the lower of cost and fair value, with changes in fair value transferred directly to profit or loss; Long-term investments are those investments which are not classified as current and are carried at cost unless there is a permanent diminution in value, in which case a provision for diminution is required to be made by the entity.	IAS 39 requires all financial instruments to be initially measured at their fair value, which is transaction price. In such cases where the initial fair value is based on a valuation model that uses inputs that are not observable in the market, then the difference between the transaction price and the valuation model is not recognized immediately in the income statement but is amortized in the income statement until the inputs become observable and the transaction matures or is terminated.	Ind As 39 is similar to IAS 39
Measurement of derivative instruments and hedging activities IAS 39	Foreign exchange contracts held for trading or speculative purposes are carried at fair value. Any change in value is recognized as gains or losses in the income statement. In absence of specific guidance, equity options are carried at the lower of cost or market value.	IAS 39 requires that all derivatives in balance sheet are recognized at fair value. Any change in fair value of derivatives that are not hedges are reported in the income statement. Change in fair value of derivatives that are designated as hedges are either offset against the change in fair value of the hedged asset or liability through earnings or recognized directly in equity until the hedged item is recognized in earnings, depending on the nature of the hedge.	Ind As 39 is similar to IAS 39

Key Differences	Indian GAAP	IFRS	Ind AS
Impairment of financial assets IFRS 6	Long-term investments are written down when there is deemed to be a permanent decline in fair value. Impairments may be reversed through income statement in subsequent periods if the fair value of investment rises or the reasons for the impairment no longer exist.	On every balance sheet date, an assessment is made as to whether there is any objective evidence of impairment. Financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment.	Ind AS 106 Similar to IFRS
Liabilities and equity IAS 39	Classification is based on the legal form rather than substance.	A financial instrument is classified as a liability where there is a contractual obligation to deliver either cash or another financial asset to the holder of that instrument, regardless of the manner in which the contractual obligation will be settled.	Ind As 39 Similar to IAS 39
Pension obligation IAS 19	The liability for defined benefit plans is calculated on similar basis like IFRS. The discount rate to be used for determining benefit obligations is established by reference to market yields at the balance sheet date on government bonds.	IAS 19 'Employee Benefits' (IAS 19) requires defined benefit pension liabilities to be assessed on the basis of current actuarial valuations. These are performed on each plan. The pension assets are to be measured at fair value. The net pension surplus or deficit which represents the difference between plan assets and liabilities is recognized on the balance sheet.	Ind AS 19 similar to IFRS

Key Differences	Indian GAAP	IFRS	Ind AS
Share-based compensation IFRS 2	Entities may either follow intrinsic value method or fair value method for determining the costs of benefits arising from share-based compensation plans. Although the fair value approach is recommended but entities may use the intrinsic value method and provide fair value disclosures.	IFRS 2 'Share based payment' requires that all share-based transactions are accounted for using a fair value method. The fair value of the employee services received in exchange of granting of options is recognized as an expense. For equity-settled awards, the total amount is amortized over the vesting period, and must be determined by reference to the fair value of the options granted (determined using an option pricing model), excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions must be included in assumptions about the number of options that are expected to become exercisable.	Ind AS 102 similar to IFRS
Deferred taxation IAS 12	Deferred tax is the difference between accounting income and taxable income for a period that is capable of reversal in one or more subsequent periods. It is determined by the timing differences.	Deferred tax is the difference between the carrying amount and tax base of assets and liabilities, subject to certain exceptions. It is determined by the temporary differences.	Ind AS 12 similar to IFRS
Interest income and expense IFRS 12	In absence of specific effective interest rate requirement, premiums and discounts are usually amortized on straight line basis over the term of an instrument.	The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument, and it is used to recognize interest income and expense in the income statement.	Ind AS 112 is similar to IFRS

4. Data Analysis

4.1. Effect of key differences on various key variables of financial statement of Wipro

Reconciliation of Profits between Indian GAAP and IFRS of Wipro for the financial year March 31, 2009.

		(Rs. in millions)
	Notes	Fiscal 2009
Profit after tax as per Indian GAAP		38,999
Intangible asset amortisation	1	(43)
Difference in revenue recognition norms	2	(32)
Stock Compensation Expense	3	(101)
Others	4	(75)
Tax adjustments		13
Net Income as per IFRS		38,761

In both the years there is a difference in net income as per Indian GAAP and IFRS. The reasons of such differences are mentioned below.

1. As per IFRS, a portion of the purchase consideration of a business acquisition is allocated as intangible asset, which meets the criteria for being recognized as an asset apart from goodwill. The intangible assets are amortised over their useful life in proportion to the economic benefits derived in each accounting period. "This increase in intangible amortization is mainly due to acquisition of CITI Technologies in fiscal 2009".
2. As per IFRS, revenue relating to product installation services is recognized when the installation services are performed. Whereas Indian GAAP, the entire revenue relating to the supply and installation of product is recognized when product is delivered as installation services are considered to be incidental to product delivery and the cost of installation service is also accrued upon delivery of the product.
3. As per IFRS, the Company amortizes stock compensation expense relating to share options on an accelerated basis, as compared to straight-line basis as per Indian GAAP. Also IFRS recognises the stock compensation expense net of expected attrition as compared to Indian GAAP.
4. Another reason is variability in interest capitalization basis and difference in accounting for certain foreign currency forward contracts under IFRS and Indian GAAP.

TABLE 2: Reconciliation of Balance Sheet between Indian GAAP and IFRS of Wipro for the financial year March 31, 2009.

Statement of financial position				
Particulars	Amount as per Indian GAAP	Effects of transition to IFRS	Amount as per IFRS	Notes for Adjustment
Goodwill	56,521	-378	56,143	1,10
Property, plant and equipment & intangible Assets	52,563	724	53,287	1,2,3
Available for sale investments	16,426	-133	16,293	4
Investment in equity accounted investees	1,670	-	1,670	
Inventories	7,587	-	7,587	
Trade receivables	50,370	-247	50,123	5
Unbilled revenues	14,108	-	14,108	
Cash and cash equivalents	49,117	-	49,117	
Net tax assets				
(including deferred taxes)	2,672	3,087	5,759	6
Other assets	20,984	2,219	23,203	3(a),5, 9, 13
TOTAL ASSETS	Rs. 272,018	Rs. 5,272	Rs. 277,290	
Share capital and share premium				
(net of shares issued to controlled trust)	29,667	-	29,667	
Share application money pending allotment	15	-15	-	12
Retained earnings	119,957	6,689	126,646	
Cash flow hedging reserve	-16,886	2,353	-14,533	6
Other reserves	3,546	2,055	5,601	4, 8,11
Total equity (A)	136,299	11,082	147,381	
Minority interest	237	-237	-	11
Loans and borrowings	56,892	-	56,892	
Trade payables and accrued expenses	40,191	-	40,191	
Unearned revenues	8,734	-	8,734	

Statement of financial position				
Particulars	Amount as per Indian GAAP	Effects of transition to IFRS	Amount as per IFRS	Notes for Adjustment
Other liabilities and provisions	29,665	-5,573	24,092	7,9,10,12, 13
Total liabilities (B)	135,719	-5,810	129,909	
TOTAL LIABILITIES AND EQUITY A+B	Rs. 272,018	Rs. 5,272	Rs. 277,290	

1. As per IFRS, all the assets and liabilities arising from a combination of business are identified and recorded at their fair value. Accordingly, the portion of purchase price is allocated towards customer related intangible, in respect to which business combination consummated subsequent to the date of transition. As per Indian GAAP, assets and liabilities arising from a combination of business are recognized at carrying value as per the books of the acquired entity. Intangible assets generated internally would not have been recognized by the acquired entity, and consequently customer related intangible assets arising from the business combination is not recognized under Indian GAAP. Consequently, intangible assets are higher by Rs. 1,535 (net of amortization of Rs. 91) and goodwill under IFRS is lesser by Rs. 1,139 (net of deferred taxes).
2. As per IFRS, amortization charged in respect of finite life of intangible assets is recorded in the proportion of economic benefits derived during the period to the expected total economic benefits from the intangible asset. As per Indian GAAP, intangible assets are amortized on a straight-line basis over life of an asset. Consequently the accumulated amortization under IFRS is lower by Rs. 149.
3. The key differences in equipment, plant and property between Indian GAAP and IFRS are as follows:
 - (a) As per IFRS, lease of land is classified as operating leases unless the title of the leasehold land would be transferred to the company at the end of the lease period. Lease rent paid in advance and lease deposit is recognized as other assets. As per Indian GAAP, the lease rent paid in advance and lease deposits are recognized in equipment, plant and property. Consequently as per IFRS, Rs. 1,293 of such payments towards lease of land has been reclassified from equipment, plant and property to other assets.

- (b) Higher interest capitalization of Rs. 331 under IFRS is net of related depreciation impact resulted due to difference in the basis of interest capitalization between Indian GAAP and IFRS.
4. As per IFRS, investments available for sale are measured at fair value at each reporting date. Any change in fair value of such investments is taken net of taxes and is recognized directly in equity. As per Indian GAAP, short-term investments are measured at cost or fair value whichever is lower. Consequently, investments available for sale under IFRS are higher by Rs. 117 (with tax effect of Rs. 33). Further investment in non-convertible debentures amounting to Rest. 250 is classified as investments under Indian GAAP whereas the same is shown under other assets in IFRS.
 5. As per IFRS, revenue is allocated to separately identifiable components of a multiple deliverable customer arrangement by an entity. When the appropriate revenue recognition criteria is met the revenue relating to these components are recognized. As per IFRS, in respect of different element arrangements the Company defers and recognizes revenue relating to installation services when those services are rendered. As per Indian GAAP, installation services are considered to be incidental to product delivery. Whole revenue is recognized once the products are delivered in accordance with the terms of agreement, and expected cost of installation services is also accrued. As a result, as per IFRS the Company has deferred revenue of Rs. 247 and reversed Rs. 195 of cost accrued for installation services.
 6. As per IFRS, if it is probable that sufficient taxable profits would be available in the future to realize the tax benefits, only then carry forward tax losses is recognized. As per Indian GAAP, deferred tax asset in respect of carry forward tax losses is recognized if it is virtually certain that sufficient taxable income would be available in the future to realize the tax benefits. Also the Indian GAAP requires an entity to follow the income statement approach for recognizing deferred taxes, whereas as per IFRS balance sheet approach in recognizing deferred taxes is mandatory. Consequently the net deferred tax assets under IFRS are higher by Rs. 3,087.
 7. As per Indian GAAP, proposed dividend on Company's equity share is recognised as a liability even though the dividend is expected to be approved by the shareholders after the reporting date. As per IFRS liability for dividend is considered when it is approved by shareholders. Consequently provisions under IFRS are lower by Rs. 6,856.

8. As per IFRS, each lot of vesting is treated as a separately and the stock compensation expense relating to that lot is amortized over the vesting period of the underlying lot. As a result accelerated amortization of stock compensation expense is there in the initial years following grant of share options. As per Indian GAAP an entity recognizes the stock compensation expense, relating to share options which vest in a graded manner, on a straight-line basis over the vesting period for the lot. Consequently, the stock compensation expense recognized under IFRS is higher by Rs. 1,432.
9. As per IFRS the FBT paid to the tax authorities is recorded as a liability over the period an employee renders services. Recovery of the FBT from an employee is accounted as a reimbursement. As per IFRS, the company recognises the reimbursement right as a separate asset. As per Indian GAAP, FBT liability and the related FBT recovery from the employee is considered at the time of exercise of stock option by the employee. Consequently as per IFRS, the Company has recognized Rs. 741 as other liabilities.
10. As per IFRS, consideration which is contingent relating to acquisitions is recognized if it is probable that such consideration will be paid in future and can be reliably measured. As per Indian GAAP, consideration which is contingent in nature is recognized after the contingency is resolved and additional consideration is considered as a liability. Consequently, under IFRS, the Company has recognized Rs. 761 towards contingent consideration and rest as additional goodwill and liability.
11. As per IFRS, minority interest is mentioned as a separate item within equity, whereas Indian GAAP requires minority interest to be shown separately from equity. This presentation difference between IFRS and Indian GAAP has resulted in an increase in equity under IFRS by Rs. 237.
12. As per IFRS, share application money received and pending allotment is shown under other liabilities, whereas Indian GAAP mandates share application money pending allotment to be shown as a separate item within equity. This presentation difference between IFRS and Previous GAAP creates a decrease in equity under IFRS by Rs. 15.
13. Application of IFRS has resulted in difference in accounting for foreign currency forward contract, thus there is a decrease in other assets by Rs. 260 and other liabilities by Rs. 236.

TABLE 3: Reconciliation of Profit and Loss Account between Indian GAAP and IFRS of Wipro for the financial year March 31, 2009.

Particulars	Amount as per Indian GAAP	Effect of Transition to IFRS	Amount as per IFRS	Notes for Adjustment
Revenues	256,995	-104	256,891	1
Cost of revenues	-179,230	-985	-180,215	1,2, 4
Gross profit	77,765	-1,089	76,676	
Selling and marketing expenses	-17,853	540	-17,313	1(c),2,3,4
General and administrative expenses	-14,356	-154	-14,510	2,4
Foreign exchange gains/(losses),net	-1,553	-	-1,553	
Results from operating activities	44,004	-704	43,300	
Finance expense	-3,865	41	-3,824	4
Finance and other income	5,057	-	5,057	
Share of profits of equity accounted investees	362	-	362	
Profit before tax	45,558	-663	44,895	
Income tax expense	-6,460	425	-6,035	4
Profit for the year	39,098	-238	38,860	
Attributable to:				
Equity holders of the Company	38,999		38,761	
Minority Interest	99		99	

1. The following are the reasons for differences in revenue between IFRS and Indian GAAP:

(a) As per Indian GAAP, revenue is reported net of excise duty charged to customers. As per IFRS, revenue includes excise duty charged to customers. Consequently revenues and cost of revenues under IFRS is greater by Rs. 1,055.

(b) As per IFRS, revenue relating to product installation services is recognized when the installation services are performed, whereas, as per Indian GAAP the

revenue relating to the supply and installation of products is recognized when products are delivered in accordance with the terms of contract. Installation services are considered to be incidental to product delivery and the cost of installation services is accrued upon delivery of the product. Consequently the revenue and the cost of revenue under IFRS are lower by Rs. 147 and Rs. 117, respectively.

- (c) As per IFRS, cash payments to customers in agreement to sales promotional activities are considered as sales discounts and reduced from revenue. As per Indian GAAP, such payments are considered as cost of revenue and are accounted as selling and marketing expense. Consequently as per IFRS, revenue is lower by Rs. 1,011 and cost of revenues and selling and marketing expenses are lower by Rs. 275 and Rs. 736, respectively.
2. As per IFRS, the Company amortizes stock compensation expense relating to share options on an accelerated basis, as compared to straight-line basis as per Indian GAAP. Also IFRS recognises the stock compensation expense net of expected attrition as compared to Indian GAAP. Consequently as per IFRS the Company has recognized additional stock compensation expense of Rs. 30 in selling and marketing expenses, Rs. 40 in cost of revenue and Rs. 30 in general and administrative expenses.
 3. As per IFRS, amortization charged in respect of finite life of intangible assets is recorded in the proportion of economic benefits derived during the period to the expected total economic benefits from the intangible asset. As per Indian GAAP, intangible assets are amortized on a straight-line basis over life of an asset. The company has recorded additional amortization in respect of customer related intangible arising out of business combination consummated subsequent to the Transition date. Consequently amortization under IFRS is greater by Rs. 43.
 4. As per Indian tax laws, the company is required to pay Fringe Benefit Tax (FBT) on definite expenses incurred by the Company. As per Indian GAAP, FBT is reported in the income statement as a separate element of total income tax expense. As per IFRS, FBT is recognized in the related expense line items and does not meet the definition of income tax expense. Consequently, the selling and marketing expenses, cost of revenue, and general and administrative expenses under IFRS are greater by Rs. 165, Rs. 124 and Rs. 124, respectively and income tax expense is relatively lower.

5. Primary Data Analysis

A primary data survey of 50 respondents has been conducted to find out the benefits and threats related to IFRS conversion and following hypothesis was framed to test the impact of IFRS conversion.

Hypothesis 1 (H01): There is no significant difference between the positive reasons for applying IFRS and Employment.

Alternative 1 (HA1): There is a significant difference in the positive reasons for applying IFRS and Employment.

Pearson Chi-Square			
Variables	Chi Value	DF	P Value*
Transparency	9.494	8	0.302
Comparability	7.538	6	0.274
Investment Opportunity	15.341	10	0.12
Mandatory Application of IFRS	13.695	10	0.187
Better Corporate Governance	12.439	8	0.133
Existence of Uniform Accounting System	8.703	10	0.561

*Level of significance 5%

As per the above results since P value of all the variables is greater than significance value of 0.05 hence we accept null hypothesis, which implies that there is no significant difference between the positive reasons for applying IFRS and Employment.

Hypothesis 2 (H02): There is no significant difference in the negative reasons for applying IFRS and Employment.

Alternate 2 (HA2): there is significant difference in the negative reasons for applying IFRS and Employment.

Pearson Chi-Square			
Variables	Chi Value	DF	P Value*
Human psychology (resistance to adopt new things)	13.659	8	0.091
Lack of training	10.593	8	0.226
Broad changes in accounting world	15.05	8	0.058

*Level of significance 5%

As per the above results since P value of all the variables is greater than significance value of 0.05 hence we accept null hypothesis, which implies that there is no significant difference between the negative reasons for applying IFRS and Employment.

TABLE 4

Pearson Chi-Square			
Variables	Chi Value	DF	P Value*
High cost of adoption	17.159	8	0.028
Lack of knowledge	16.684	8	0.034

*Level of significance 5%

As per the above results since P value of all the variables is less than significance value of 0.05 hence we accept alternate hypothesis, which implies that there is a significant difference between the positive reasons for applying IFRS and Employment.

1. Are you aware of the pros and cons of IFRS adoption

Very little	5.88%
Little	11.76%
Mediocre	7.84%
much	21.57
Very much	52.94%

As per above table it can be seen that only 5.88% respondents don't know about the IFRS. 53% respondents are aware about IFRS implementation. IFRS implementation is known to majority of respondents. It shows that IFRS is a globally known issue.

2. Do you believe that you will meet barriers during the application of IFRS?

Little	11.76%
Medicore	7.84%
much	21.57
Very much	52.94%

As per above graph 53% respondents believe that there will be difficulty in implementing IFRS due to technical issue, lack of IT resources and lack of HR training etc. Convergence with IFRS requires huge cost in training employees and software upgradation etc.11.76% people expressed the opinion that there will not be much difficulty in adoption process of IFRS because companies have already taken initiative

to impart training on IFRS. Moreover many KPMGs and professional bodies are providing training and conducting classes, workshops and seminars on IFRS

3. Do you think auditors, accountants and accounting students are ready for the convergence to IFRS?

Little	3.92%
Medicore	15.69%
much	25.49%
Very much	54.90%

Approx. 55% respondents have given their opinion that since there are many professional bodies providing training and conducting workshops hence the professionals in India are very much acquaint with IFRS and its implementation related issues. On the other hand around 4% think that accounting professionals still need more training and knowledge about IFRS and IFRS related technical issues.

4. Implementation of IFRS would reduce information asymmetry and would subsequently smooth the communication between stakeholders.

Disagree	1.96%
Undecided	15.69%
Agree	27.45%
Strongly Agree	54.90%

As per survey more than half of respondents think that IFRS would bring down the cost of capital because it will bring information symmetry. IFRS is a high quality reporting standard which aims to bring transparency in financial statement. Thus most of the respondents believe that it will bring down the cost of equity and will help in timely recognition of loss. Its only 2% people who think that implementation of IFRS will not affect the financial statements preparation and presentation

5. Professional support with IFRS experience

Undecided	9.80%
Agree	33.33%
Strongly Agree	56.86%

56.86% respondents are of the opinion that those who have IFRS experience will provide professional support. On the other Hand 10% people have opposite opinion.

6. IFRS will help the accountants and auditors to prevent frauds done by company's accountant

Disagree	5.88%
Undecided	9.80%
Agree	31.37%
Strongly Agree	52.94%

More than 50% professional a think that IFRS is standards which is of high quality, hence the convergence with IFRS will affect the financial statement preparation and presentation. IFRS implementation will bring uniformity and transparency. Therefore the respondents believe that in most of the case frauds can be prevented. Only 6% respondent disagree to this statement

6. Conclusion

The result of the analysis shows that more than 50% respondent think that convergence with IFRS would bring down the cost of equity and will help in prevention of frauds. It will further reduce the risk in capital market because IFRS is high quality financial reporting standards. Thus the overall cost of equity will be reduced because of reduced risk. IFRS will increase transparency and will bring better corporate governance. It will also lead to early detection of corporate frauds. So far as employment is concerned, both positive and negative effect of IFRS has no significant relationship with employment as IFRS does not recommend any Standards for Employment. Though the full convergence with IFRS in India requires more and more training and workshops for accounting professionals and IT resources needs to be advanced and adapted as IFRS but at the same time such high quality standard will make financial statements of Indian corporate sector globally compatible and comparable. Thus it can be concluded that IFRS should be welcomed with open arms as it will lead to a better environment for an entity and stakeholders on global platform.

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