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Indian GAAP and Its Convergence to IFRS: Empirical Evidence from India

Sarbapriya Ray

Shyampur Siddheswari Mahavidyalaya, University of Calcutta, India.

Abstract: There is a growing international consensus on the International Financial Reporting Standards as acceptable standards for assessment of the financial health of a company across the globe. For entities that are globally active, the differences in financial reporting requirements create extra complications in terms of preparing, consolidating, auditing and interpreting financial statements. Against this backdrop, the prime objective of the present work is to study the rationale behind introducing IFRS, comparative analysis of Indian Accounting Standards and IFRS, challenges involved in IFRS while adopting it in India, impact and consequences on financial statement due to IFRS adoption of Wipro Ltd. It has been found from our study that there is not much deviations and fluctuations in the net income position as disclosed by financial statement of Wipro Ltd in IFRS reporting and Indian GAAP. But, deviation is rather prominent when observing the total liability and equity position which is mainly because of reclassification between equity and total liability. In true generalized sense, the return on equity, return on asset, total asset turnover and net profit ratios are not significantly affected by converging to IFRS but the leverage ratio shows significant change on converging with IFRS.

Keywords: GAAP, IFRS, convergence, IAS, India, Wipro Ltd.

1. Introduction

There is a growing international consensus on the International Financial Reporting Standards as acceptable standards for assessment of the financial health of a company across the globe. With the world becoming a global village, companies and investors who operate business in several countries need to understand each nation’s accounting principle. Although basic accounting principles such as the accrual basis and the going-concern assumption are widely accepted, the application of these principles in different economic and cultural environments has led to significant differences as to how accountants report similar transactions. Local differences exist in, for example, the treatment of goodwill, the definition of a group, treatment of borrowing costs, measurement of impairment, and the treatment of deferred taxes.

For entities that are globally active, these differences in financial reporting requirements create extra complications in terms of preparing, consolidating, auditing, and interpreting financial statements. This is because financial statements have to be reconciled before consolidated financial statements can be prepared, the analysis of potential acquirers in a foreign country increases the costs of the mergers and acquisitions department because they have to familiarize themselves with a foreign accounting system, and investors have to be informed about differences in financial reporting. In general, the differences in accounting treatments create non-optimal information for users of financial statements, which in turn leads to less than optimal allocation of resources. It has been said that accounting is the "language of business," and though not all users need to create the language, all users should be able to "read" the language. For decades, however, it has been difficult to read and understand company performance when financial information originated from different global locations. Many of these companies effectively prepared financial statements under different accounting rules and regulations. As a result, the different rules created different values or measures for the same economic event.

In India, the Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for financial statement for the periods beginning on or after 1st April 2011. The rules for the first-time adoption of IFRS are set out in IFRS 1 –First time-adoption of International Financial Reporting Standards. IFRS 1 states that a company should use the same accounting policies in its opening balance sheet and throughout all periods presented in its IFRS financial statements. The standard requires these policies to comply with IFRS effective at the reporting date of the first published financial statements under IFRS. IFRS 1 permits certain mandatory exemptions and also allows exemptions from the application of certain IFRS in order to assist companies with the transaction process. According to an Oracle White Paper (2008) the International Accounting Standards Board (IASB) has since 1970 worked to develop a single set of International Standards, the IFRS. The world's capital market ebb and flow continuously, and participants in that market place must have access to financial information that factually reflects their economic performance, is consistent among companies around the globe, and is governed by a trusted and respected authority of corporate compliance.

Beginning from 1st April 2011, Companies listed in National Stock Exchange(Nifty 50), Bombay Stock Exchange(Sensex 30),Companies whose stocks are listed outside India and Companies which are listed or not but which have their net worth exceeding Rs 1000 crores are required to carry out the convergence of Indian Accounting Standard with IFRS. Reliable, consistent and uniform financial reporting is important part of good corporate governance practices worldwide in order to enhance the credibility of the businesses in the eyes of investors to take informed investment decisions. In pursuance of G-20 commitment given by India, the process of convergence of Indian Accounting Standards with IFRS has been carried out in Ministry of Corporate Affairs through wide ranging consultative exercise with all the stakeholders. Thirty five Indian Accounting Standards converged with International Financial Reporting Standards (henceforth called IND AS) was notified by the Ministry of Company Affairs of India.

2. Rationale behind adopting IFRS in Indian Accounting scenario

A set of financial reporting standards issued by the International Accounting Standards Board is recognized under the brand name International Financial Reporting Standards (IFRSs). IFRS is a trade mark of the International Accounting Standards Committee Foundation. The main objective of International Financial reporting Standard (IFRS) is to harmonize accounting between countries which will make it easier to conduct business internationally and can subsequently raise funds in global capital market.

International Financial Reporting Standards (IFRSs) comprise of:

- International Financial Reporting Standards (IFRS)—standards issued after 2001
- International Accounting Standards (IAS)—standards issued before 2001
- Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC)—issued after 2001
- Standing Interpretations Committee (SIC)—issued before 2001
- Framework for the Preparation and Presentation of Financial Statements (1989)

Presently, there are nine IFRS, forty one IASs, eighteen IFRIC interpretations and twelve SIC interpretations (Given in Appendix).

In general connotation, 'convergence' means to achieve harmony with IFRS; in precise term, convergence can be considered "to design and maintain national accounting standards in a way that financial statements prepared in accordance with national accounting standards draw unreserved statement of compliance with IFRS". In this context, attention is drawn to paragraph 14 of International Accounting Standard (IAS) 1, Presentation of Financial Statements, which states that financial statements shall not be described as complying with IFRS unless they comply with all the requirements of IFRS. Thus, 'convergence with IFRSs' means adoption of IFRS.

Economies across the world have benefited by adopting IFRS for financial reporting purposes.It is generally expected that IFRS adoption worldwide will be beneficial to investors and other users of financial statements, by reducing the costs of comparing alternative investments and increasing the quality of information. Companies are also expected to benefit, as investors will be more willing to provide financing. Better financial information for shareholders, better financial information for regulators, enhanced comparability, improved transparency of results, increased ability to secure cross-border listing, better management of global operations and decreased cost of capital are some of the remarkable benefits derived from adopting IFRS.

(i) IFRS will eliminate blockades to cross border listings and would be beneficial for the investors who generally attributed to risk premium if the underline financial information is not prepared in accordance with international standards. Indian firms require funds for their expansion plans which are not limited to the economic and political boundaries of India. Indian Firms are acquiring firms outside India also. They are also getting listed in European and American Capital Markets through raising funds from these markets. One of the major pre-requisites of getting listed on European Markets is preparation of Accounts as per IFRS requirements. A few Indian Companies which have raised funds through the European Capital Markets have started preparing their Financial Statements as per IFRS.

(ii)IFRS enhances comparability among different sectors, countries and companies, which will lead to more transparent financial reporting benefiting investors, customers and other stakeholder in India and overseas. Across the globe, Firms are using IFRS to report their financial results. With the adoption of IFRS by Indian firms, the comparison of two becomes easier. Investors, Bankers and Lenders also find it easy to compare the two financial statements following same reporting procedure. Indian companies in the process of raising funds from overseas capital markets have to provide financial results to interested parties. Since majority of Indian Firms are accessing European capital markets, preparation and presentation of financial statements on the basis of IFRS helps firms in getting easy accessibility to these capital markets.

(iii)Convergence with IFRS will remove multiple reporting and related costs, as the same set of financial statements can be used both for reporting at the entity level and at the consolidated level. Large Business Houses in India having firms in India and abroad prepare their Accounts as per Indian Accounting Standards for inland companies whereas firms registered in other countries prepare their financial statements as per the Reporting standards of the respective country. Adoption of IFRS ensures the elimination of multiple financial reporting standards by these firms as they are following single set of Financial Reporting.

(iv). The use of IFRS is likely to enhance the reliability and image of financial reporting by Indian industry across the world, since it will be based on a global set of accounting standards. As a result Indian entities are likely to experience a wider availability of capital through increased cross border listing and investment opportunities.

(v). It is extensively expected that the use of a single global standard will enhance the efficiency of capital allocation on a global basis and help to diminish the cost of capital.

(vi).Convergence with IFRS enables Indian companies to access Global Capital Markets and eliminate cross border listing and encourage more foreign capital flow to the country. To comply with the regulatory requirements of the international stock market for raising capital, Indian Companies should report their financials results as per IFRS. Thus adoption of IFRS not only helps Indian Firms in accessing global Capital Markets for funds but also makes it easier to avail funds at cheaper cost.

(vii). The number of countries across the world where IFRS is a recognized reporting framework continues to grow. This brings opportunities to generate process and cost efficiencies in financial reporting. It will also potentially open up opportunities to standardize, simplify and centralize financial reporting processes and functions.

(viii). Corporate houses can identify its true worth / Fair valuation of many balance sheet items. Adoption of IFRS is likely to result in better quality of financial reporting due to consistent application of Accounting Principles and improvement in reliability of financial statements. Among various latest trends-based concepts, IFRS follows a concept of fair value which can assist Indian firms to reflect their true worth of Assets held in the financial statements. Since a single body (IASB, London) is preparing IFRS, these are very consistent, reliable and unproblematic to adopt ensuring better quality of financial reporting.

3. Challenges in implementing IFRS in India

Financial reporting systems must be amenable to change so that finance professionals can respond to investor and analyst with confidence. According to Oracle White Paper (2008) most companies are able to adopt a new accounting standard, but a truly successful transition depends on a company’s ability to provide full audit trails, variance analysis, and reconciliation of prior standards to satisfy internal and external inquiries.

(i). **Sprouting International Standards**

The world’s biggest companies as well as Indian companies have not reached true standardization and comparatibility. International Accounting Standard simplified the compliance landscape in Europe, but in some countries like India exceptions and rules modify the standards. Reporting environment will continue to change as the market and investors react to changes in how financial results are delivered. International standards will change also as governing bodies amend policy, set new standards and adjust regulation processes.

(ii)Lack of responsiveness to International Financial Reporting Practices

Convergence of IFRS to Indian GAAP means full adoption of IFRS which indicates that a complete set of different reporting standards have to bring in. The awareness of these reporting standards is still not there among the stakeholders like Firms, Banks, Stock Exchanges, Commodity Exchanges etc.. To bring a complete awareness of these standards among these parties is a tricky job.

(iii).**New Standards introduces discrepancies**

IFRS have created surprising challenges for those who prepare and require financial statements. Management of large corporation are concerned with learning how the new accounting rules will affect their companies reported earnings, tax liabilities, and the shape of the balance sheet discrepancies will simply occur between reports based on IFRS and those based on local Generally Accepted Accounting Principle (GAAP) due to change in accounting policy or in the method of measurement. Companies spend considerable effort in an attempt to reconcile results achieved with different standards.

(iv) Difficult to make adjustment with Indian Taxation law

IFRS adoption will have an effect on most of the items in the Financial Statements and accordingly, the tax liabilities would also undergo a change. Currently, Indian Tax Laws do not recognize the Accounting Standards. A complete renovation of Tax laws is the major challenge faced by the Indian Law Makers immediately. A great deal of changes has to be made in Tax laws to make it certain that tax authorities recognize IFRS-Compliant financial statements otherwise it will duplicate the administrative work for the Firms.

(v).Every possibility of Multi-GAAP Reporting

When a company complies with the specific accounting policies and procedures required by IFRS, they need to simultaneously continue reporting based on GAAP requirements. This multi-GAAP reporting requirement makes implementation of IFRS challenging. Many companies in the EU and other areas will continue to use local GAAP in their reporting for tax purposes, but prepare financial statements based on IFRS.

(vi) Volatility in Use of Fair Value as assessment yardstick

IFRS uses fair value concept in measuring majority items in financial statements. The use of Fair Value Accounting may have a lot of volatility and subjectivity to the financial statements. Adjustments to fair value result in gains or losses which are reflected in the Income Statements and valuation is reflected in Balance Sheet. Indian Corporate houses in India preparing its financial statements on the basis of historical cost will have hard-hitting time while shifting to Fair Value Accounting.

(vii). **Management Reporting**

There is the challenge of accurate and effective management reporting. Statutory reporting must be aligned with management reporting, and management must understand the impact that IFRS has on performance management and key performance indicators. Forward-looking statements of performance based on IFRS have to be consistent with budgets based on the operational GAAP.

(viii) Harmonization and modification to the Existing Laws becomes necessary

In India, Accounting Practices are governed mostly by Companies Act 1956 and Indian Generally Accepted Accounting Principles (IGAAP). Existing laws such as Securities Exchange Board of India regulations, Indian Banking Laws & Regulations, Foreign Exchange Management Act also provide some guidelines on preparation of Financial Statements in India. IFRS does not recognize the presence of these laws and the Accountants will have to follow the IFRS fully with no overriding provisions from these laws. Indian Lawmakers will have to make necessary amendments to ensure a smooth transition to IFRS.

(ix) Lack of properly trained up professional

India does not have sufficient number of fully trained professionals to carry out this task of adoption of IFRS in India. As India is at the threshold of adopting IFRS since 1.4.2111, successful implementation of IFRS need to have adequate number of properly trained up Accountants, Government officials, Chief Executive Officers, Chief Information officers for a smooth adoption process.

4. IFRS & Indian Accounting Standards: A Comparative Analysis:

The difference between Indian GAAP and IFRS are highlighted as below:

Table1: IFRS & Indian Accounting Standards: A Comparative Analysis

SUBJECT	IFRS	INDIAN GAAP
First time adoption	Full retrospective application of IFRS to PL and BS. Reconciliation of PL and BS in Respect of last year reported Numbers under previous GAAP.	No needs to prepare reconciliation on first time adoption
Components of Financial Statements	Comprises of Balance sheet, Profit and Loss A/c. Cash flow Statement, changes in Equity and	Comprises of Balance sheet, Profit and Loss A/c. Cash flow

	accounting policy and notes to Accounts	Statement (if applicable), and Notes to Accounts
Balance Sheet	No particular format, a current/ non current presentation of Assets and liabilities is used.	As per Format Prescribed in Schedule VI for Companies, Adherence to Banking Regulation For Banks etc.
Income Statement	No particular format Prescribed (IAS-1)	As per Format Prescribed in Schedule VI (AS-1)
Cash Flow Statement	Mandatory for all entities (IAS-7)	Level 3 entities are exempted (AS-3)
Depreciation	Over the useful life of the asset. (IAS-16)	Over the useful life of the asset, or schedule xiv rates, whichever is higher (AS-10)
Dividends	Liability to be recognized in the Period when dividend is Declared. (IAS-10)	Recognized as an appropriation against the Profit, and recorded as liability at B/S date even if declared Subsequent to reporting period But before the approval of Financial statements (AS-4)
Cost of major repairs and overhaul expenditure on fixed assets	Recognized in carrying amount of the assets (IAS-16)	Expensed off. Only expenses, which increases the FEB are to be capitalized. (AS-10)
Revaluation	Revaluation (if done) to be updated periodically so that carrying amount does not differ from fair value at the end period. Revaluation to be done for entire class of assets (IAS-16)	No specific requirement for Revaluation. Revaluation can be done on systematic basis like for one location leaving aside the assets of other location. (AS-10)
Change in the method of depreciation	Considered as a change in Accounting estimate. To Be Applied prospectively. (IAS-16 and IAS 8)	Considered as change in Accounting policy, retrospective Computation and excess or deficit is adjusted in same Period. Required to be Disclosed(AS-6)
Earnings per share	Disclosure to be made in only consolidated financials of the Parent Co. (IAS-33)	Disclosure of EPS in both Consolidated and separate Financials. (AS-20)
Component accounting	Required each major Property Plant Equipment with a cost that is significant in relation to total Cost, should be depreciated separately (IAS-16)	No such requirement (AS-10)
Intangible assets	Intangible assets can have indefinite useful life and hence	There is no concept of indefinite useful life. Assets have definite

	such assets are tested for impairment and not amortized.	life. (usually 10 years)
Reporting currency	Requires the measurement of Profit using the functional Currency. Entities may, however, Present financial statements in a different currency. (IAS-21)	Schedule VI to the Companies Act, 1956 specifies Indian rupees as the reporting currency. (AS-11)
Key management personnel (KMP)	Includes Executive as well as non executive directors (IAS-24)	Excludes non executive Directors. (AS-18)
Compensation to KMP	Disclosure to be made for total Compensation such as short term employee benefits and post employment benefits	AS-18 does not require the Break up of compensation Cost.
Fringe Benefits Tax	Included as part of related Expense (fringe benefit) which gives rise to incurrence of the Tax.	Disclosed as a separate item after profit before tax on the face of the income statement.
Uniform accounting policies	Prepared using uniform Accounting policies across all entities in a group. (IAS-27)	Policies may differ due to impracticability. (AS-21)
Disclosure of extra ordinary items	Prohibits such disclosure (IAS-1). No such term in IFRS	Disclosure to be made in Notes (AS-5)

Source: Tripati&Gupta (2011) adapted.

5. Review of existing literature

This section briefly reviews current empirical studies conducted to observe the impact of IFRS on key financial aspects originating from the financial statements of companies.

Wong and Wong(2005) examined to explore the impact of not amortizing goodwill and identifiable intangible assets with in definitive lives on some commonly used valuation multiples of New Zealand listed companies. Results indicated that these have a significant downward effect on EV/EBIT and PE multiples.

Hope et al.(2006) investigated the importance of IFRS in the context of global accounting standards harmonization and to know what institutional factors influence countries decision to voluntarily adopt IFRS. This study determines a significant negative association between the adoption of IFRS and investor protection.

Lantto (2007) examined whether IFRS improved the usefulness of accounting information in a code law country that has a strong system of legal enforcement and high quality domestic accounting standards. The result of the study pointed out that IFRS have improved the relevance of accounting information in Finland but they also highlighted the concern about reliability of those financial statement items that are prepared using judgement.

Chand & White (2007) demonstrated that the influence of Multinational Enterprises and large international accounting firms can lead to transfer of economic resources in their favour, wherein the public interests are usually ignored.

The study carried out by Callao et al (2007) on financial data of Spanish firms revealed that local comparability is adversely affected if both IFRS and local Accounting Standards are applied in the same country at the same time. The study, therefore calls for an urgent convergence of local Accounting Standards with that of IFRS.

Barth et al (2008) in their study of financial data of firms from 21 countries examined whether application of IAS/IFRS is associated with higher accounting quality. The findings of the study confirmed that firms applying IAS/IFRS evidence less earnings management, more timely loss recognition and more relevance of accounting numbers. The study also found out that the Firms applying IAS/IFRS experienced an improvement in accounting quality between the pre-adoption and post adoption period.

Capkun et al. (2008) analyzed the impact of mandatory change in financial reporting standards in European Union and found that the transition from local GAAP to IFRS had a small but statistically significant impact on total assets, equity, total liabilities and among assets the most pronounced impact on intangible assets and property plant and equipment. It was examined by Ball (2008) whether an investor got benefit from implementing IFRS or it is just like a mirror which makes him "far from reality". In case of direct benefit, IFRS offer increased comparability and hence reduced information costs and information risk to investors. And in case of indirect benefit, IFRS lead to a reduction in firms cost of equity capital, the researchers observed. Extant literature generally makes comparisons between IAS and U.S. GAAP (e.g., Harris and Muller 1999; Ashbaugh and Olsson 2002), non-U.S. and U.S. GAAP (e.g., Amir, Harris and Venuti 1993) and across different local standards including U.S. GAAP (Ali and Hwang 2000; Ball, Kothari and Robin 2000).

Zhou et al (2009) in one such study of Chinese firms' data concluded that the firms adopting IFRS are less likely to smooth earnings in the post IFRS adoption period. Their findings also pointed out the need for a stricter enforcement mechanism of financial reporting standards in emerging markets.

Paananen & Lin (2009) gave a contrary view to prior research that IFRS adoption ensures better quality of accounting information. Their analysis of German companies reporting showed that accounting information quality has worsened with the adoption of IFRS over time. They also suggested that this development is less likely to be driven by new adopters of IFRS but is driven by the changes of standards.

Lantto & Sahlstrom (2009) in their study of key financial ratios of companies of Finland found that the adoption of IFRS changes the magnitude of the key accounting ratios. The study also showed that the adoption of Fair Value Accounting rules and stricter requirements on certain Accounting issues are the reasons for the changes observed in Accounting Figures and financial ratios.

Working on the data of European firms, Armstrong et al (2010) found out a positive reaction to IFRS adoption events for firms with high quality pre adoption information, consistent with investors expecting net convergence benefits from IFRS adoption. In his study of 1084 European Union firms during the period of (1995-2006),

Steffee (2009) in his article concluded that there are considerable differences in the approaches taken to implementing IFRS by individual Western European countries and companies. He viewed that corporations in Luxembourg, Austria and Switzerland demonstrate the most transparent accounting practices and best corporate governance, while European Banks with large capitalizations display very aggressive Accounting

Elena et al (2009) in their article dealing with the issues of convergence between US Generally Accepted Accounting Principles (GAAP) and IFRS were of the opinion that the adoption of IFRS in the USA undoubtedly would mark a significant change for many US companies. It would require a shift to a more principles-based approach, place for greater reliance on management (and auditor) judgment, and spur major changes in company processes and systems.

Ali & Ustundag (2009) in their paper on development process of Financial Reporting Standards around the World and its practical results in a developing country, Turkey. They observe that Turkey has encountered several complications in adoption of IFRS such as complex structure of the International standards, potential knowledge shortfalls and other difficulties in application and enforcement issues. Epstein (2009) in his article on Economic Effects of IFRS adoption emphasized on the fact that universal financial reporting standards will increase market liquidity, decrease transaction costs for investors, lower cost of capital and facilitate international capital formation and flows.

Siqi Li (2010) concluded that on average, the IFRS mandate significantly reduces the cost of equity for mandatory adopters. He also suggested in his research that this reduction is present only in countries with strong legal enforcement and that increased disclosures and enhanced information comparability are two mechanisms behind the cost of equity reduction. Cai & Wong (2010) in their study of global capital markets summarized that the capital markets of the countries that have adopted IFRS have higher degree of integration among them after their IFRS adoption as compared to the period before the adoption.

Iatridis (2010) concluded, on the basis of data of firms listed on London stock exchange, that the IFRS implementation has favorably affected the financial performance (measured by profitability and growth potential) of firms. The study also demonstrated that following the fair value orientation of IFRS, the transition to IFRS appears to introduce volatility in Income statement figures.

Chen et al (2010) in their study of financial data of publicly listed companies in 15 member states of European Union (EU) before and after the full adoption of IFRS in 2005 found that the majority of Accounting Quality indicators improved after IFRS adoption in the EU. They found that there is less of managing earnings towards a target, a lower magnitude of absolute discretionary accruals and higher accruals quality. The study also showed that the improved accounting quality is attributable to IFRS, rather than changes in managerial incentives, institutional features of capital markets and general business environment.

Devalle et al (2010) concluded that with adoption of IFRS by 3721 firms listed on 5 European Stock Exchanges, influence of earning on share price increased. As evident from the literature review, good number of studies carried out in different countries have highlighted the benefits of having single set of financial reporting standards across the globe. Few of the studies have also brought out the procedural aspects of implementation of IFRS. Some of the studies have given a contradictory view wherein the articles talk about the difficulties and complications faced in implementing IFRS.

This literature, however, rarely compares IAS with local GAAP. Prior literature examines this question based on cross-sectional comparisons across different countries and concludes that the shareholder-oriented model is generally more value relevant than the stakeholder-oriented model (Ali and Hwang 2000; Ball et al. 2000). The literature, however, is unable to disentangle whether this finding is driven by the difference in accounting standards or other institutional factors such as shareholder protection or market development.

Many studies had been undertaken worldwide over the past three decades by the financial regulators which highlighted the importance of international financial reporting standards. These studies mainly looked into the needs of such reporting standards and prepared the road map for pursuing the same. Among them, important studies quoted in varied books, journals and deliberations include- International GAAP® 2009 by Ernst and Young published by Wiley, International Financial Reporting Standards (IFRSs) Taxmann Publications P Ltd, Dr. Ghosh T. P. (Jan 2010) ―IFRSs Adoption in India: A Review of Regulatory and Accounting Issues, Journal of Company Secretariat, Singh Balwinder and Raman A. N. (9th Sep2009) ―Implications of IFRS on Historical Cost Accounting, The Management Accountant, Journal of ICWAI, Vol 44, Journey to IFRS, Confederation of Indian Industry, IFRS Summit (2009), Deloitte IFRS: Developing a Roadmap to Convergence, KPMG, (March 2008), and Concept paper on convergence with IFRSs in India ICAI (2007). Nearly all the studies highlighted the need of IFRS and how to move from country specific accounting standards to globally accepted reporting standards. In fact the above mentioned studies ignored the practical aspect, problems which a company might face while converging from country specific accounting standards to IFRS. There is very limited text which talked about implementation of the internationally recognized financial reporting standards i.e. IFRS. Therefore our study is based on to gauge the impact of adoption of IFRS and the problems a company face at the time of conversion period through case study of Wipro Limited. There is no study carried out in India with regard to convergence effect of IFRS by Indian companies and so the same has been taken for the study.

6. Objectives

The prime objective of the present work is to study impact and consequences on financial statement due to IFRS adoption with the help of case study of Wipro Limited.

More specifically, this article has the following objectives:

1. To observe the effects of voluntary convergence of IFRS on financial statement of Wipro Ltd, an IT based comapany.

2. To scrutinize the effects of voluntary convergence of IFRS on financial ratio of Wipro Ltd.

7. Methodology

7.1.Study Area

This study has been conducted by incorporating the provisions of IFRS adopted / to be adopted by the Wipro Ltd, a software company running business in India.

7.2.Research Design

This study is analytical as well as descriptive in nature. The study gives the comparative details about the IFRS and IGAAP for the purpose of better understanding and analysis. We have not taken any hypotheses in the study because adoptions of IFRSs are in progress and it takes time to come in full and fledged manner.

7.3.*Data Collection*

The study is based on secondary data on selected variables sourced from the published annual reports of Wipro for the year ended 31st March 2010. Wipro had voluntarily prepared its annual report on the basis of Indian GAAP and IFRS for the year ended 31st March 2010, wherein reconciliation of equity based on Indian GAAP and IFRS is presented for the opening Balance Sheet as at 1st April 2008 and for Balance Sheet ended 31st March 2009.The main sources of secondary data are company‘s manual, annual general reports, journals, newspapers and concerned websites.

7.4.Data Analysis

Comparative study and chart has been prepared for bird‘s eye view. Since the data has been analyzed and provided by the company itself, we have elaborated the reasons behind the differences and suggested tentative solutions towards better convergence of IFRS.

8. Analytical Results

8.1. Impact of Convergence to IFRS on Financial Statements-study on Wipro Ltd

Companies have started the process of preparing IFRS compliant financial statements and are gearing up to adapt to the change in a timely manner to avoid last moment rush, as ICAI and Ministry of Corporate Affairs is committed to the deadline of IFRS adoption, which is April,2011. Few companies such as Wipro, Infosys Technologies, NIIT, Mahindra & Mahindra, Tata Motors, Bombay Dyeing and Dr Reddy's Laboratories have begun to align their accounting standards to IFRS, three years ahead of the mandatory time for the switchover.

8.2 The Company overview

Wipro Limited ("Wipro" or the "Parent Company"), together with its subsidiaries and equity accounted investees (collectively, "the Company" or the "Group") is a leading India based provider of IT Services, including Business Process Outsourcing ("BPO") services, globally. Further, Wipro has other businesses such as IT Products, Consumer Care and Lighting and Infrastructure engineering. Wipro is a public limited company incorporated and domiciled in India. The address of its registered office is Wipro Limited, Doddakannelli, Sarjapur Road, Bangalore - 560 035, Karnataka, India. Wipro has its primary listing with Bombay Stock Exchange and National Stock Exchange in India. The Company's American Depository Shares representing equity shares are also listed on the New York Stock Exchange. These consolidated financial statements were authorized for issue by Audit Committee on May 31, 2010.

We have considered the Annual report of Wipro prepared for the year ended 31st March 2010 where in the reconciliation of the equity as per IFRS and Indian GAAP were reported for the year beginning 2008 and for the year ended 2009. The 2009-2010 Annual Report of Wipro presented the consolidated financial statement in both Indian GAAP and IFRS. Reconciliation of equity as per IFRS and Indian GAAP was reported for the year beginning 2008 and for the year ended 2009, which is considered in this study for examination.

TABLE 1: Reconciliation of Profits between IFRS and Indian GAAP *(Rs. in millions)*

	Notes	Fiscal 2010	Fiscal 2009
Profit after tax as per Indian GAAP		46,310	38,999
Intangible asset amortization	A	(259)	(43)
Difference in revenue recognition norms	B	26	(32)
Stock Compensation Expense	C	15	(101)
Others	D	(21)	(75)
Tax adjustments		(140)	13
Net Income as per IFRS		45,931	38,761

Source: Annual Report of Wipro, 2010,p153.

[A]. Under IFRS, a portion of the purchase consideration in a business acquisition is allocated to intangible assets which meets the criteria for being recognized as an asset apart from goodwill. These intangible assets are amortized over their useful life in proportion to the economic benefits consumed in each reporting period. The increase in intangible amortization is primarily due to acquisition of CITI Technologies in fiscal 2009.

[B]. Under IFRS, revenue relating to product installation services is recognized when the installation services are performed. Under Indian GAAP, the entire revenue relating to the supply and installation of products is recognized when products are delivered since installation services are considered to be incidental / perfunctory to product delivery and the cost of installation services is also accrued upon delivery of the product.

[C]. Under IFRS, the Company amortizes stock compensation expense relating to share options which vest in a graded manner on an accelerated basis, as compared to straight-line basis under Indian GAAP.

Also under IFRS, the stock compensation expense is recognized net of expected attrition as compared to Indian GAAP, where stock compensation expense is reversed for options which do not vest due to attrition at actual.

[D]. This includes difference in accounting for certain foreign currency forward contracts and basis of interest capitalization under IFRS and Indian GAAP.

TABLE 2: CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS - WIPRO LIMITED

Reconciliation of Equity as at April 1, 2008

	opening balance April 2008 (Rupees in millions)				
Particulars	**Amount as per PreviousIGAAP**	**Amount as perIFRS**	**Effect of Transition to IFRS**	**% of Change**	**Relevant Notes for adjustments**
Goodwill	42209	42635	-426	-1.01	8
PPE and Intangibles	41583	41344	**239**	**0.57**	1,2
Available for Sale investment	14679	15247	-568	-3.87	3
Investment in equity accounted	1343	1343	0	0	
Inventories	6664	6664	0	0	
Trade receivables	40453	40353	100	0.25	4
Unbilled revenue	8514	8514	0	0	
Cash and cash equivalents	39270	39270	0	0	
Net tax assets	3632	4486	-854	-23.51	5
Other assets	13980	15379	-1399	-10.01	2(a),4,9,10,13
Total Assets	**212327**	**215235**	**-2908**	**-1.37**	
Share capital and share premium	28296	28296	0	0	
Share application money pending allotment	40	0	40	**100**	12
Retained earnings	87908	94728	-6820	-7.76	
Cash flow hedging reserve	-1097	-1097	0	0	
Other reserves	1807	3658	-1851	-102.43	3,7,11
Total Equity	**116954**	**125585**	**-8631**	**-7.38**	
Minority Interest	116	0	116	**100**	11
Loan and Borrowings	44850	44850	0	0	
Trade Payables	27873	27873	0	0	
Unearned revenues	4269	4269	0	0	
Other liabilities and provisions	18265	12658	5607	30.7	6,8,10,12
Total Liabilities	**95373**	**89650**	**5723**	**6**	
Total liabilities and equity	212327	215235	-2908	-1.37	

Source: Annual Report of Wipro, 2010, pp170-71.

Notes:

1) Under IFRS, the amortization charge in respect of finite life intangible assets is recorded in proportion of economic benefits consumed during the period to the expected total economic benefits from the intangible asset. Under Previous GAAP, finite life intangible assets are amortized usually on a straight line basis over their useful life. As a result, the accumulated amortization under IFRS is lower by Rs. 101as at April 1, 2008.

2) Listed below are the key differences in property, plant and equipment between IFRS and Previous GAAP:

a) Under IFRS, leases of land are classified as operating leases unless the title to the leasehold land is expected to be transferred to the Company at the end of the lease term. Lease rentals paid in advance and lease deposits are recognized as other assets. Under Previous GAAP, the lease rentals paid in advance and lease deposits are recognized in property, plant and equipment. Under IFRS, Rs. 645 of such payments towards lease of land has been reclassified from property, plant and equipment to other assets. This adjustment has no impact on equity.

b) Difference in the basis of interest capitalization between Previous GAAP and IFRS resulted in higher interest capitalization by Rs. 305 under IFRS, net of related depreciation impact.

3) Under IFRS, available for sale investments are measured at fair value at each reporting date. The changes in fair value of such investments, net of taxes, are recognized directly in equity. Under Previous GAAP, short-term investments are measured at lower of cost or fair value. Consequently, carrying value of the available for sale investments under IFRS is higher by Rs. 568 (tax effect Rs. 165).

4) Under IFRS, an entity is required to allocate revenue to separately identifiable components of a multiple deliverable customer arrangement. The revenue relating to these components are recognized when the appropriate revenue recognition criteria is met. Under IFRS, in respect of multiple element arrangements comprising delivered products and installation services, the Company defers and recognizes revenue relating to installation services when those services are rendered. Under Previous GAAP, installation services are considered to be incidental / perfunctory to product delivery. Entire revenue is recognized, when the products are delivered in accordance with the contractual terms, and expected cost of installation services is also accrued. Consequently, under IFRS the Company has unearned revenue of Rs. 100 and reversed Rs. 78 of cost accrued for installation services. The deferred revenues are recognized when the related installation services is performed.

5) Under IFRS, tax benefits from carry forward tax losses is recognized if it is probable that sufficient taxable profits would be available in the future to realize the tax benefits. Under Previous GAAP, deferred tax asset in respect of carry forward tax losses is recognized if it is virtually certain that sufficient future taxable income would be available in the future to realize the tax benefits. Further, Previous GAAP requires an entity to follow the income statement approach for recognizing deferred taxes, while IFRS mandates the balance sheet approach in recognizing deferred taxes. As a result, net deferred tax assets under IFRS are higher by Rs. 854.

6) Under Previous GAAP, a liability is recognized in respect of proposed dividend on Company's equity shares, even though the dividend is expected to be approved by the shareholders subsequent to the reporting date. Under IFRS, liability for dividend is recognized only when it is approved by shareholders. Accordingly, provisions under IFRS are lower by Rs. 6,842.

7) The Company grants share options to its employees. These share options vest in a graded manner over the vesting period. Under IFRS, each tranche of vesting is treated as a separate award and the stock compensation expense relating to that tranche is amortized over the vesting period of the underlying tranche. This results in accelerated amortization of stock compensation expense in the initial years following the grant of share options. Previous GAAP permits an entity to recognize the stock compensation expense, relating to share options which vest in a graded manner, on a straight-line basis over the requisite vesting period for the entire award. However, the amount of compensation cost recognized at any date must at least equal the portion of the grant-date value of the award that is vested at that date. Accordingly, the stock compensation expense recognized under IFRS is higher by Rs. 1,332 as at April 1, 2008 in respect of the unvested awards.

8) Under IFRS, contingent consideration relating to acquisitions is recognized if it is probable that such consideration would be paid and can be measured reliably. Under Previous GAAP, contingent consideration is recognized after the contingency is resolved and additional consideration becomes payable. As a result, under IFRS, the Company has recognized Rs. 426 of contingent consideration as additional goodwill and liability. This adjustment has no impact on equity.

9) Under IFRS, loans and receivables are recognized at amortized cost, which is carried at historical cost under Previous GAAP. As a result, the carrying value of such loans and receivables under IFRS is lower by Rs. 154.

10) Indian tax laws, levies Fringe benefit Tax (FBT) on all stock options exercised on or after April 1, 2007. The Company has modified share options plan to recover FBT from the employees. Under IFRS 2, Share based payment, the FBT paid to the tax authorities is recorded as a liability over the period that the employee renders services. Recovery of the FBT from the employee is accounted as a reimbursement right under IAS 37, Provisions, contingent

liabilities and contingent assets, as it is virtually certain that the Company will recover the FBT from the employee. Accordingly, under IFRS, the Company has recognized the reimbursement right as a separate asset, not to exceed the FBT liability recognized at each reporting period. Under Previous GAAP, FBT liability and the related FBT recovery from the employee is recorded at the time of exercise of stock option by the employee. Accordingly, under IFRS the Company has recognized Rs. 766 as other liabilities and reimbursement right in respect of outstanding stock options. This adjustment has no impact on equity.

11) Under IFRS, minority interest is reported as a separate item within equity, whereas previous GAAP requires minority interest to be presented separately from equity. This presentation difference between IFRS and Previous GAAP has resulted in an increase in equity under IFRS by Rs. 116 as at April 1, 2008.

12) Under IFRS, share application money received and pending allotment is reported under other liabilities, whereas Previous GAAP requires share application money pending allotment to be presented as a separate item within equity. This presentation difference between IFRS and Previous GAAP has resulted in a decrease in equity under IFRS by Rs. 40 as at April 1, 2008.

13) Difference in accounting for certain foreign currency forward contracts has resulted in an increase in other assets by Rs. 64 under IFRS as of April 1, 2008.

Analyzing the opening financial statement of Wipro for the year 1.4.2008 it has been pertinent from the table 2 that there is 1.37% increase in the total assets value as per IFRS when compared with the total assets value as per Indian Accounting standards. There is increase in the value of net tax asset including deferred taxes in IFRS reporting by 23% when compared with the amount reported under Indian Accounting Standard. There is 10% increase in other assets in IFRS reporting compared to Indian Accounting standards. The total equity has increased by nearly 7% in IFRS when compared to the Indian accounting standards. The total liability has decreased by 6% in IFRS when compared to Indian accounting standards.

Table 3: Consolidated Financial Statements under IFRS - WIPRO Limited

Reconciliation of Equity as at March 31, 2009

opening balance April 2009 (Rupees in millions)					
Particulars	IGAAP	IFRS	Difference	% of Change	**Relevant Notes for adjustments**
Goodwill	56521	56143	378	0.67	1,10
PPE and Intangibles	52563	53287	-724	-1.38	1,2,3
Available for Sale investment	16426	16293	133	0.81	4
Investment in equity accounted	1670	1670	0	0	
Inventories	7587	7587	0	0	
Trade receivables	50370	50123	247	0.49	5
Unbilled revenue	14108	14108	0	0	
Cash and cash equivalents	49117	49117	0	0	
Net tax assets	2672	5759	-3087	-115.53	6
Other assets	20984	23203	-2219	-10.57	3(a),5, 9, 13
Total Assets	**272018**	**277290**	**-5272**	**-1.94**	
Share capital and share premium	29667	29667	0	0	

Share application money pending allotment	15	0	15	100	12
Retained earnings	119957	126646	-6689	-5.58	
Cash flow hedging reserve	-16886	-14533	-2353	13.93	6
Other reserves	3546	5601	-2055	-57.95	4, 8,11
Total Equity	**136299**	**147381**	**-11082**	**-8.13**	
Minority Interest	237	0	237	100	11
Loan and Borrowings	56892	56892	0	0	
Trade Payables	40191	40191	0	0	
Unearned revenues	8734	8734	0	0	
Other liabilities and provisions	29665	24092	5573	18.79	7,9,10,12, 13
Total Liabilities	**135719**	**129909**	**5810**	**4.28**	

Source: Annual Report of Wipro, 2010,pp172-74

Notes:

1) Under IFRS, all the assets and liabilities arising from a business combination are identified and recorded at fair value. Accordingly, a portion of purchase price is allocated towards customer related intangible in respect of business combination consummated subsequent to the Transition date. Under Previous GAAP, assets and liabilities arising from a business combination are recognized at carrying value in the books of the acquired entity. Internally generated intangible assets would not have been recognized by the acquired entity and therefore customer related intangible arising from the business combination is not recognized under Previous GAAP. Accordingly, goodwill under IFRS is lower by Rs. 1,139 (net of deferred taxes) and intangible assets are higher by Rs. 1,535 (net of amortization of Rs. 91).

2) Under IFRS, the amortization charge in respect of finite life intangible assets is recorded in the proportion of economic benefits consumed during the period to the expected total economic benefits from the intangible asset. Under Previous GAAP, finite life intangible assets are amortized usually on a straight line basis over their useful life. As a result the accumulated amortization under IFRS is lower by Rs. 149 as at March 31, 2009.

3) Listed below are the key differences in property, plant and equipment between IFRS and Previous GAAP:

a) Under IFRS, leases of land are classified as operating leases unless the title to the leasehold land is expected to be transferred to the Company at the end of the lease term. Lease rentals paid in advance and lease deposits are recognized as other assets. Under Previous GAAP, the lease rentals paid in advance and lease deposits are recognized in property, plant and equipment. Under IFRS, Rs. 1,293 of such payments towards lease of land has been reclassified from property, plant and equipment to other assets. This adjustment has no impact on equity.

b) Difference in the basis of interest capitalization between Previous GAAP and IFRS resulted in higher interest capitalization by Rs. 331 under IFRS, net of related depreciation impact.

4) Under IFRS, available for sale investments are measured at fair value at each reporting date. The changes in fair value of such investments net of taxes, are recognized directly in equity. Under Previous GAAP, short-term investments are measured at lower of cost or fair value. Consequently, available for sale investments under IFRS is higher by Rs.(tax effect Rs. 33). Additionally, investment in non convertible debentures amounting to Rs. 250 is classified as investments under Previous GAAP whereas the same is shown under other assets in IFRS. This has no impact on equity.

5) Under IFRS, an entity is required to allocate revenue to separately identifiable components of a multiple deliverable customer arrangement. The revenue relating to these components are recognized when the appropriate revenue recognition criteria is met. Under IFRS, in respect of multiple element arrangements comprising delivered products and installation services, the Company defers and recognizes revenue relating to installation services when those services are rendered. Under Previous GAAP,

installation services are considered to be incidental / perfunctory to product delivery. Entire revenue is recognized, when the products are delivered in accordance with the contractual terms, and expected cost of installation services is also accrued. Consequently, under IFRS the Company has deferred revenue of Rs. 247 and reversed Rs. 195 of cost accrued for installation services. The deferred revenues are recognized when the related installation services is performed.

6) Under IFRS, tax benefits from carry forward tax losses is recognized if it is probable that sufficient taxable profits would be available in the future to realize the tax benefits. Under Previous GAAP, deferred tax asset in respect of carry forward tax losses is recognized if it is virtually certain that sufficient future taxable income would be available in the future to realize the tax benefits. Further, Previous GAAP requires an entity to follow the income statement approach for recognizing deferred taxes, while IFRS mandates balance sheet approach in recognizing deferred taxes. As a result, net deferred tax assets under IFRS are higher by Rs. 3,087 (including impact of foreign currency translation adjustment, where necessary).

7) Under Previous GAAP, liability is recognized in respect of proposed dividend on Company's equity share, even though the dividend is expected to be approved by the shareholders subsequent to the reporting date. Under IFRS, liability for dividend is recognized only when it is approved by shareholders. Accordingly, provisions under IFRS are lower by Rs. 6,856.

8) The Company grants share options to its employees. These share options vest in a graded manner over the vesting period. Under IFRS, each tranche of vesting is treated as to that tranche is amortized over the vesting period of the underlying tranche. This results in accelerated amortization of stock compensation expense in the initial years following grant of share options. Previous GAAP permits an entity to recognize the stock compensation expense, relating to share options which vest in a graded manner, on a straight-line basis over the requisite vesting period for the entire award. However, the amount of compensation cost recognized at any date must at least equal the portion of the grant-date value of the award that is vested at that date. Accordingly, the stock compensation expense recognized under IFRS is higher by Rs. 1,432 as at March 31, 2009, in respect of unvested awards.

9) Indian tax laws levy Fringe Benefit Tax (FBT) on all stock options exercised on or after April 1, 2007. The Company has modified share options plan to recover FBT from the employees. Under IFRS 2, Share based payment, the FBT paid to the tax authorities is recorded as a liability over the period that the employee renders services. Recovery of the FBT from the employee is accounted as a reimbursement right under IAS 37, Provisions, contingent liabilities and contingent assets, as it virtually certain that the Company will recover the FBT from the employee. Accordingly, under IFRS, the Company has recognized the reimbursement right as a separate asset, not to exceed the FBT liability recognized at each reporting period. Under Previous GAAP, FBT liability and the related FBT recovery from the employee is recorded at the time of exercise of stock option by the employee. Accordingly, under IFRS, the Company has recognized Rs. 741 as other liabilities and reimbursement right in respect of outstanding stock options. This adjustment has no impact on equity.

10) Under IFRS, contingent consideration relating to acquisitions is recognized if it is probable that such consideration will be paid and can be measured reliably. Under Previous GAAP, contingent consideration is recognized after the contingency is resolved and additional consideration becomes payable. As a result, under IFRS, the Company has recognized Rs. 761 of contingent consideration as additional goodwill and liability. This adjustment has no impact on equity.

11) Under IFRS, minority interest is reported as a separate item within equity, whereas Previous GAAP requires minority interest to be presented separately from equity. This presentation difference between IFRS and Previous GAAP has resulted in an increase in equity under IFRS by Rs. 237 as at March 31, 2009.

12) Under IFRS, share application money received and pending allotment is reported under other liabilities, whereas Previous GAAP requires share application money pending allotment to be presented as a separate item within equity. This presentation difference between IFRS and Previous GAAP has resulted in a decrease in equity under IFRS by Rs. 15 as at March 31, 2009.

13) Difference in accounting for certain foreign currency forward contract has resulted in a decrease in other assets by Rs. 260 and other liabilities by Rs. 236 under IFRS as of March 31, 2009.

Evaluating the closing financial statement of Wipro for the year 31.3.2009 it is observed there is 1.94% increase in the Total assets value as per IFRS when compared with the total assets value as per Indian Accounting standards.

There is increase in the value of Net tax asset including deferred taxes in IFRS reporting by 115.53% when compared with the amount reported under Indian Accounting Standard. There is 10.57% increase in other assets in IFRS reporting compared to Indian Accounting standards. The total equity has increased by nearly 8.13% in IFRS when compared to the Indian accounting standards. The total liability has decreased by 4.28% in IFRS when compared to Indian accounting standards.

Table 4: Reconciliation of Profit for the Year Ended March 31, 2009

Particulars	Amount as	Effect of	Amount as per	Relevant Notes

	per Previous GAAP	Transition to IFRS	IFRS	for adjustments
Revenues	Rs. 256,995	Rs. (104)	Rs. 256,891	1
Cost of revenues	(179,230)	(985)	(180,215)	1,2, 5
Gross profit	77,765	(1,089)	76,676	
Selling and marketing expenses	(17,853)	540	(17,313)	1(c),2,3,5
General and administrative expenses	(14,356)	(154)	(14,510)	2,5
Foreign exchange gains/(losses), net	(1,553)	0	(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	0	5,057	
Share of profits of equity accounted investees	362	0	362	
Profit before tax	**45,558**	**(663)**	**44,895**	
Income tax expense	(6,460)	425	(6,035)	5
Profit for the year	Rs. 39,098	Rs. (238)	Rs. 38,860	
Attributable to: Equity holders of the Company	Rs. 38,999	Rs. 38,761		
Minority Interest	99		99	

Source: Annual Report of Wipro, 2010,p174.

Notes:

1) The following are the primary differences in revenue between IFRS and Previous GAAP:

a) Under Previous GAAP, revenue is reported net of excise duty charged to customers. Under IFRS, revenue includes excise duty charged to customers. As a result, revenues and cost of revenues under IFRS is higher by Rs. 1,055.

b) Under IFRS, revenue relating to product installation services is recognized when the installation services are performed. Under Previous GAAP, the entire 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 / perfunctory to product delivery and the cost of installation services is accrued upon delivery of the product. Accordingly, revenue and cost of revenue under IFRS is lower by Rs. 147 and Rs. 117, respectively.

c) Under IFRS, generally cash payments to customers pursuant to sales promotional activities are considered as sales discounts and reduced from revenue. Under Previous GAAP, such payments are considered as cost of revenue and selling and marketing expense. As a result, under 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) Under IFRS, the Company amortizes stock compensation expense, relating to share options, which vest in a graded manner, on an accelerated basis. Under Previous GAAP, the stock compensation expense is recorded on a straight-line basis. As a result, under IFRS the Company has recognized additional stock compensation expense of Rs. 40 in cost of revenue, Rs. 30 in selling and

marketing expenses and Rs.30 in general and administrative expenses.

3) Under IFRS, the amortization charge in respect of finite life intangible assets is recorded in the proportion of economic benefits consumed during the period to the expected total economic benefits from the intangible asset. Under Previous GAAP, such finite life intangible assets are amortized on a straight-line basis over the life of the asset. Further, the Company recorded additional amortization in respect of customer related intangible arising out of business combination consummated subsequent to the Transition date. Accordingly, amortization under IFRS is higher by Rs. 43.

4) This includes difference in accounting for certain foreign currency forward contracts and basis of interest capitalization under IFRS and Previous GAAP.

5) Under Indian tax laws, the Company is required to pay Fringe Benefit Tax (FBT) on certain expenses incurred by the Company. Under Previous GAAP, FBT is reported in the income statement as a separate component of income tax expense. Under IFRS, FBT does not meet the definition of income tax expense and is recognized in the related expense line items. Accordingly, the cost of revenue, selling and marketing expenses and general and administrative expenses under IFRS are higher by Rs. 165, Rs. 124 and Rs. 124, respectively and income tax expense is correspondingly lower.

8.3. Impact of Convergence to IFRS on Financial Ratios

We have examined five ratio that depend on financial statements for the year as at March 31, 2009

(1) Return on Equity defined as net income divided by book value of equity;

(2) Return on Assets, defined as net income divided by total assets;

(3) Total Asset Turnover, defined as sales revenue divided by total assets;

(4) Leverage, defined as total liabilities divided by book value of equity

(5) Net Profit ratio defined as Net income divided by sales revenue.

Table 4: Financial Ratios for the year ended 31st March 2009 of WIPRO Ltd.

Ratios	As per IGAAP	As per IFRS
Return on Equity	0.29	0.26
Return on Asset	0.14	0.14
Total asset turnover	0.94	0.93
Leverage	1	0.88
Net Profit Ratio	0.15	0.15

Source: Annual Report of Wipro Ltd.(2010) adapted.

We examine that the Return on Equity and Net profit ratio as reported under IGAAP and IFRS remains the same. There is a decrease in the leverage or debt equity ratio in IFRS accounting when compared to IGAAP accounting. The reduction in this ratio in IFRS is due to increase in value of Equity by 8.13% in IFRS accounting and reduction in value of Total Liabilities by about 4.28% in IFRS accounting when compared with IGAAP accounting. There is reduction in return on equity mainly because of increase in the equity value by about 8.13% and decrease in Net profit by about 0.61% in IFRS reporting when compared to IGAAP reporting. There is reduction in Total asset Turnover mainly because of increase in Total assets by about 1.94% and decrease in turnover by about 0.04% in IFRS reporting when compared with IGAAP reporting.

9. Conclusion

The study investigates empirically the effect of voluntary adoption and convergence of IGAAP with IFRS. It has been found from our study that there is not much deviations and fluctuations in the net income position as disclosed by financial statement of Wipro Ltd in IFRS reporting and Indian GAAP. But deviation is rather prominent when observing the total liability and equity position which is mainly because of reclassification between equity and total liability. The provision under IFRS is reduced mainly because dividend provision is not recognized in IFRS. Fair value measurement of Available for sale investment and the share compensation expense recognized in IFRS is higher, as in IFRS reporting accelerated amortization of stock compensation expense in the initial years following the grant of options, whereas in Indian GAAP reporting recognizes the stock compensation expenses in graded manner on a straight line basis over the requisite vesting period for the entire award which resulted in increase in share based payment reserve. In true generalized sense, the return on equity, return on asset, total asset turnover and net profit ration are not significantly affected by converging to IFRS but the leverage ratio shows significant change on converging with IFRS. There are also significant changes in the total equity and total liability position on convergence to IFRS but not prominent changes in the total asset position.

The study suffers with some limitations also. The content discussed in the article is drawn, by and large, from secondary sources, i.e., journal articles, magazines, newspapers, annual report etc. The study is qualitative as well as quantitative in nature but there is less possibility of judging or analyzing the data on basis of our own best judgment because ready made comparative analysis of financial statement of Wipro Ltd under IFRS and IGAAP has been considered in the study due to difficulty in examining the issues through quantitative tools at the very budding stage of this adoption process.

In summary, it be said that differences in accounting methods create information costs for the preparers, auditors, and users of financial statements. Several organizations recognized the need to harmonize financial reporting, and the European Union was one of the first to publish directives to reduce differences in the reporting of similar transactions. Convergence in India would be facilitated by the fact that historically Indian accounting standards have been based on principles as against rules. However, given the nature of accounting and peculiarities of the Indian economic environment, the process of convergence has its own set of challenges. The conflicting legal and regulatory requirements related to financial statements, the technical preparedness of industry and accounting professionals and the economic environment prevailing in the country will pose challenges to this convergence. Given the task and challenges, all the entities should ensure that their convergence plan are designed in such a way as to achieve the objective of doing it once, but doing it right.

Appendix

The following IFRS statements are currently issued:

- IFRS 1 First time Adoption of International Financial Reporting Standards
- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 4 Insurance Contracts
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRS 7 Financial Instruments: Disclosures
- IFRS 8 Operating Segments
- IFRS 9 Financial Instruments
- IAS 1: Presentation of Financial Statements.
- IAS 2: Inventories
- IAS 3: Consolidated Financial Statements Originally issued 1976, effective 1 Jan 1977. Superseded in 1989 by IAS 27 and IAS 28
- IAS 4: Depreciation Accounting Withdrawn in 1999, replaced by IAS 16, 22, and 38, all of which were issued or revised in 1998
- IAS 5: Information to Be Disclosed in Financial Statements Originally issued October 1976, effective 1 January 1997. Superseded by IAS 1 in 1997
- IAS 6: Accounting Responses to Changing PricesSuperseded by IAS 15, which was withdrawn December 2003
- IAS 7: Cash Flow Statements
- IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 9: Accounting for Research and Development Activities – Superseded by IAS 38 effective 1.7.99
- IAS 10: Events After the Balance Sheet Date
- IAS 11: Construction Contracts
- IAS 12: Income Taxes
- IAS 13: Presentation of Current Assets and Current Liabilities – Superseded by IAS 1.
- IAS 14: Segment Reporting (superseded by IFRS 8 on 1 January 2008)
- IAS 15: Information Reflecting the Effects of Changing Prices – Withdrawn December 2003
- IAS 16: Property, Plant and Equipment
- IAS 17: Leases
- IAS 18: Revenue

- IAS 19: Employee Benefits
- IAS 20: Accounting for Government Grants and Disclosure of Government Assistance
- IAS 21: The Effects of Changes in Foreign Exchange Rates
- IAS 22:Business Combinations – Superseded by IFRS 3 effective 31 March 2004
- IAS 23: Borrowing Costs
- IAS 24: Related Party Disclosures
- IAS 25: Accounting for Investments – Superseded by IAS 39 and IAS 40 effective 2001
- IAS 26: Accounting and Reporting by Retirement Benefit Plans
- IAS 27: Consolidated Financial Statements
- IAS 28: Investments in Associates
- IAS 29: Financial Reporting in Hyperinflationary Economies
- IAS 30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions – Superseded by IFRS 7 effective 2007
- IAS 31: Interests in Joint Ventures
- IAS 32: Financial Instruments: Presentation (Financial instruments disclosures are in IFRS 7 Financial Instruments: Disclosures, and no longer in IAS 32)
- IAS 33: Earnings Per Share
- IAS 34: Interim Financial Reporting
- IAS 35: Discontinuing Operations – Superseded by IFRS 5 effective 2005
- IAS 36: Impairment of Assets
- IAS 37: Provisions, Contingent Liabilities and Contingent Assets
- IAS 38: Intangible Assets
- IAS 39: Financial Instruments: Recognition and Measurement
- IAS 40: Investment Property
- IAS 41: Agriculture
- Preface to International Financial Reporting Interpretations (Updated to January 2006)
- IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities (Updated to January 2006)
- IFRIC 7 Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (Issued February 2006)
- IFRIC 8 Scope of IFRS 2 (Issued February 2006)—has been eliminated with Amendments issued to IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives (Issued April 2006)
- IFRIC 10 Interim Financial Reporting and Impairment (Issued November 2006)
- IFRIC 11 IFRS 2-Group and Treasury Share Transactions (Issued November 2006)—has been eliminated with Amendments issued to IFRS 2
- IFRIC 12 Service Concession Arrangements (Issued November 2006)
- IFRIC 13 Customer Loyalty Programmes (Issued in June 2007)
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (issued in July 2007)
- IFRIC 15 Agreements for the Construction of Real Estate (issued in July 2008)
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (issued in July 2008)
- IFRIC 17 Distributions of Non-cash Assets (issued in November 2008)
- IFRIC 18 Transfers of Assets from Customers (issued in January 2009)
- SIC 7 Introduction of the Euro (Updated to January 2006)
- SIC 10 Government Assistance-No Specific Relation to Operating Activities (Updated to January 2006)
- SIC 12 Consolidation-Special Purpose Entities (Updated to January 2006)
- SIC 13 Jointly Controlled Entities-Non-Monetary Contributions by Venturers (Updated to January 2006)
- SIC 15 Operating Leases-Incentives (Updated to January 2006)
- SIC 21 Income Taxes-Recovery of Revalued Non-Depreciable Assets (Updated to January 2006)
- SIC 25 Income Taxes-Changes in the Tax Status of an Entity or its Shareholders (Updated to January 2006)
- SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease (Updated to January 2006)
- SIC 29 Disclosure-Service Concession Arrangements (Updated to January 2006)

- SIC 31 Revenue-Barter Transactions Involving Advertising Services (Updated to January 2006)
- SIC 32 Intangible Assets-Web Site Costs (Updated to January 2006)
- SIC 33 Consolidation and equity method - Potential voting rights and allocation of ownership interest.

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