Impact of IFRS on the Financial Statements of Select IT Companies in India

** Vidya Chandrasekar*
*** D.N.S. Kumar*

Abstract

Globalization of economies and shift in financial environment from the traditional bank based one to a market based one necessitated a uniform financial reporting language across countries to facilitate comparisons. This resulted in the establishment of International Accounting Standard Board (IASB) which issued International Financial Reporting Standards (IFRS), a global standard for company financial statements. More than 120 countries, including European Union, Australia, Canada have already adopted IFRS. India was expected to converge with IFRS from April 2016 for listed and unlisted companies with a net worth of more than ₹ 500 crores. However, few Indian companies listed internationally are voluntarily reporting IFRS. The present study aimed to understand the effect of this voluntary reporting of IFRS on key financial ratios of four selected IT sector companies. The study compared 12 major financial ratios under IFRS and Indian Generally Accepted Accounting Principles (IGAAP) as reported in their financial statements for a period of 5years from 2009-10 to 2013-14. For the purpose of the study, financial ratios representing four key dimensions of companies namely liquidity, leverage, profitability, and efficiency were considered. To understand the statistical significance of the difference between the ratios, Wilcoxon signed rank test, a non parametric test was used. Of the 12 ratios analyzed, 10 were found to be statistically significant. Further, the study explained the financial statement items which cause the difference in the ratios of these companies. The results indicated current liability and shareholder's equity to be significant at the 10% level, thus explaining the difference in financial statement items under IFRS.

Key words : **International Financial Reporting Standards (IFRS), financial markets, convergence**

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Developments in the economy have changed financial environment of businesses from traditional bank based system to a market oriented one. The expansion of financial markets worldwide coupled with globalization enabled companies to raise funds abroad and also necessitated them to address investors outside their home country. This lead to multiple reporting as companies were required to comply with regulatory requirement of filing financial reports as per the home country's standards and other as per global standards. To avoid multiple reporting and to have a transparent system of reporting which facilitates comparisons, reduces cost of raising capital, and also fulfills regulatory requirements of different countries, a uniform system of accounting was felt necessary. Hence, the establishment of International Financial Reporting Standards (IFRS) took place, a common accounting system and framework, which is perceived as transparent and fair to local and global investors, and which lead to increased compatibility and comparability among different financial statements across the globe (Yadav & Sharma, 2012). This perception is supported by the findings of Hope, Jin, and Kang,

* *Adjunct Faculty,* Department of Commerce, Christ University, Bangalore - 29. E-mail : Vidya15592@gmail.com

** *Professor in Finance & Associate Director,* Centre for Research – Projects, Christ University, Bangalore - 29.
E-mail : dns.kumar@christuniversity.in

(2005) that countries adopt IFRS to improve investor protection, to make capital market more accessible to foreign investors, and to improve comparativeness and comprehensiveness of their financial information. By replacing historical cost with fair values for various balance sheet items, IFRS also helps a firm know its true worth (Gupta, Kumar, & Gupta, 2012 ; Kaur, 2011).

The introduction of IFRS has fuelled the expectation of users of financial statements on the potential benefits of adoption of the same. Studies have indicated the benefits of IFRS adoption such as higher comparability of financial statements among companies operating in different jurisdictions, reduced transaction costs, and access to international capital through cross border listings, and greater foreign investments (Aharony, Barniv, & Falk, 2010 ; Dunne, et al., 2008). Several studies have also been conducted to analyze the consequences of IFRS adoption on financial statement items (Dunne et al., 2008 ; Lantto & Sahlstrom, 2009). Most of these studies were restricted to European countries and some Australian and Canadian countries as they were the early adopters.

India, the fastest growing economy in the world, is on a convergence track with IFRS. Convergence means India would harmonize its national accounting standards in compliance with IFRS as this provides freedom to protect the local business environment. These harmonized accounting standards are notified by Ministry of Corporate Affairs (MCA) and are called Ind AS. As of 2015, 39 Indian accounting standards harmonized with IFRS have been notified by MCA (The Institute of Chartered Accountants of India (ICAI), 2015).

A road map for convergence with IFRS was notified by MCA in a phased manner effective from April 2011 (Ministry of Corporate Affairs, 2010). As the deadline was not met due to various reasons, a revised notification and implementation roadmap was issued by MCA in February 2015, recommending Indian companies with a net worth of over ₹ 500 crores to converge with IFRS with effect from April 1, 2016 (MCA, 2015). The Finance Minister had also in his budget speech of 2014-15 indicated that Indian companies have to report IFRS voluntarily from 2015-16 and mandatorily from 2016-17 to make financial statements of Indian companies comparable to more than 120 countries, which are already reporting and also to fulfill the commitment made to the G20 nations. While many in corporate India are still not ready for convergence, some Indian companies, which are listed abroad, are voluntarily reporting IFRS in their financial statements to fulfill the regulatory requirement. Though there have been studies done in India on the impact of IFRS on financial performance of companies reporting voluntarily by calculating and comparing financial ratios, there is no study done to find the significant impact of this voluntary reporting on financial performance of companies by explaining the reasons for the impact through financial statement items. With India poised for convergence with IFRS effective from April 2016, the pertinent study attempts to bridge this gap, by analyzing the impact of IFRS on financial performance of companies reporting IFFRS voluntarily in India and explaining which of the financial statement items causes the change in ratios.

Literature Review

Being early adopters, many studies have been done in European Union countries on many facets of IFRS adoption, which includes improvement in financial performance. However, there are huge variations in the results obtained. A study by Lantto and Sahlström (2009), of Finnish companies, revealed positive changes in income statement numbers (higher profitability and lower expenses) and negative changes in balance sheet numbers (increase in debt items and decrease in equity). The results also revealed increase in debt and decrease in shareholder equity explaining the difference in the ratios under IFRS. This corresponds to the study by Stent, Bradbury, and Hooks (2010), among New Zealand companies, which also found increase in liability and decrease in equity. Income tax and employee benefits were found to be the reasons for increase in liabilities and financial instruments were the most common reason for decrease in equity. The above results are also in line with the study by Trewavas, Redmayne, and Laswad (2014) on New Zealand entities which found increase in liabilities and

assets and decrease in equity. Similar results were obtained by Punda (2011) in his study of UK companies, which found increase in profitability ratios, net income, and current liability and decrease in price earning and equity. A study on 200 Greek companies by Iatridis and Dalla (2011) showed increase in profitability and leverage ratios and decrease in liquidity. Similar results were obtained by Sovbetov (2015) while analyzing UK companies. Ibiamke and Ateboh - Briggs (2014) also found increase in leverage ratios, and decrease in liquidity and market ratios while analyzing 60 Nigerian companies.

Markelevich, Lweis, and Weihs (2010), in their study in Israel, found significant changes in all the balance sheet and income statement items. Kubickova and Jindrichovska (2012), in their study on Czech companies, did not find any significant changes in the financial statement items. A study on Turkish companies by Terzi, Oktem, and Sen (2013), using logistic regression and Wilcoxon signed rank test, showed significant impact on liquidity and turnover ratios and no difference in book/market value. Gibson (2014) also found significant impact on debt and equity ratios of Canadian companies. However, McConnell (2012), after conducting analysis of 50 Canadian companies, did not find any change in debt and equity ; changes were found in quick ratio, return on assets, and comprehensive return on assets.

Studies in countries like UK and USA, which are capital market oriented and were expected to address the public shareholders, financial reporting of these countries was perceived to be more transparent and with good quality than of countries such as Germany, France, Italy, etc., where the accounting information was addressed to few creditors and owners. These variations in national accounting systems along with cultural and political differences in the business environment of countries across the globe resulted in inconsistent reports.

Studies related to IFRS in India are very limited, and the studies carried out also have mostly been case studies analyzing a particular company. Swamynathan and Sindhu (2011) and Ray (2012) - both studied the effect of IFRS on financial statements of Wipro for the year 2008-09 and found a decrease in debt equity and return on equity and found no change in return on assets and net profit. Bhargav and Shikha (2013) also examined Wipro's financial statement of 2012 and found a positive difference in liquidity ratios and negative difference in profitability ratios. However, Chouhan's (2013) study on Wipro's financial statement of 2012-13 indicated increase in all balance sheet items. Das's (2014) study on six Indian companies using Gray Index found no significance in any of the ratios analyzed. Conversely, Achalapathy and Bhanusireesha (2015), while analyzing 10 Indian companies for a period of 5 years, found statistical difference in liquidity, profitability, and investment valuation. Gray index showed positive effect of IFRS adoption.

With the Indian economy being opened to foreign investors, the business environment is moving from bank based borrowings to a market based one, and with companies poised for IFRS convergence, it is appropriate to know the effect of IFRS on the financial statements of Indian companies who are reporting voluntarily.

Research Methods

Though more than 150 Indian companies are listed in foreign markets, except 15 companies, others do not provide the financial reporting under IFRS in their annual report submitted to regulatory authorities in India. Of these 15 companies, the study chose companies under the IT sector, which is reporting IFRS in their financial statements for a minimum period of 5 years.

The IT sector was chosen for analysis as the contribution of this sector to India's GDP increased from 1.2% in 1998 to 9.5% in 2015. The sector had aggregated revenue of US$ 146 billion in 2015, compared to US$ 118 billion in 2014, with a growth rate of 23.72%. The sector is the 4th largest startup hub and the largest private sector employer, employing around 3.5 million workforce (NASSCOM, 2014). Infosys, an IT major, is the first company from India to get listed in an overseas exchange, the National Association of Securities Dealers Automated Quotation System (NASDAQ). Looking into the importance, expansion, and reach of this sector into

Table 1. List of IT Companies Selected for the Study

Particulars	Infosys Ltd.	Wipro Ltd.	TCS Ltd.	Mindtree Ltd.
Year of Incorporation	1981	1945	1968	1999
Listed at	NSE/BSE/ NASDAQ/NYSE	BSE / NSE NYSE	BSE / NSE NYSE	BSE / NSE
Reporting IFRS since	2007 -08	2009-10	2011-12 (Comparatives for 2009-10 & 2010-11 available)	2011-12 (Comparatives for 2009-10 & 2010-11 available)

different parts of the globe, it is imperative and necessary to assess the impact of IFRS in this sector. The IT companies which qualified the sampling criteria of minimum 5 years of IFRS reporting are listed in the Table 1.

First time reporting of IFRS requires restatement of previous year's figures for the purpose of comparison. Accordingly, though TCS and Mindtree started reporting IFRS from 2011-12, these companies have restated their financial statements as per IFRS for the period from 2009-10 and 2010-11, which has been used in our study. However, as only balance sheet figures are restated for a comparative purpose; for the purpose of this study, income statement figures of IGAAP are retained for IFRS for 2009-10 in the case of both TCS and Mindtree.

The study adopts a three-way approach to find the impact on financial performance; first, the study creates a database of reported financial statements of sample companies (both balance sheet and income statement) in Excel for both IFRS and IGAAP. Second, from the database created, the study calculates key financial ratios and analyzes the statistical difference for the same study period. Third, the study examines the financial statement items which cause these differences in the ratios and tests for statistical significance.

As financial ratios are generally used by analysts, creditors, investors, and other stakeholders to measure a company's performance before taking any significant decisions, the study considered 12 financial ratios, which are grouped into four categories : Liquidity, Leverage, Profitability, and Efficiency. Statistical Package for Social Sciences (SPSS) version 17 was used to analyze the significant difference between IGAAP and IFRS ratios. Descriptive statistics of the calculated ratios were also drawn.

Furthermore, the study investigates the financial statement items (balance sheet and income statement) which were used to calculate the ratios and which explains the reasons for the difference. To explain this, absolute values of six financial statement items from both under IGAAP and IFRS are considered. Two income statement items and four balance sheet items were taken to examine the difference.

Analysis and Results

The Table 2 shows the descriptive statistics of all the 12 financial ratios calculated under IGAAP for the period from 2010 to 2014, providing the mean and standard deviation. The minimum and maximum shows the range between the ratios calculated under IGAAP.

The huge gap between minimum and maximum, especially in the case of interest coverage ratio, return on intangibles, and debt ratio is a sign that the data is not normal. Skewness, which measures the symmetry of value around the mean, and kurtosis indicates that the distribution have bigger tails of more extreme observations, which also postulates that the data is not normal. The Table 3 shows the descriptive statistics of all the 12 financial ratios calculated under IFRS for the period from 2010 - 2014.

Similar to the descriptive statistics of IGAAP, the gap between the minimum and maximum in case of return on intangibles, interest coverage ratio and debt ratio, and the measures of Skewness and kurtosis of IFRS ratios indicate non normalcy of data. This is in line with the study of Lantto and Sahlström (2009). Due to the small size of data and data being not normal, a simple *t* - test could not be applied to test the statistical significance of differences in ratios. Hence, Wilcoxon signed rank test, a non - parametric test, is used to test the statistical

Table 2. Descriptive Statistics of Financial Ratios under IGAAP

IGAAP RATIOS	*Mean*	*SD*	Kurtosis	Skewness	Min	Max
Liquidity Ratios						
Current ratio	2.94	0.89	-0.44	0.76	1.82	4.78
Quick ratio	2.42	0.76	-0.29	0.84	1.26	3.89
Cash ratio	1.15	1.15	0.94	1.43	0.16	4.09
Profitability Ratios						
Return on intangibles	17.10	34.90	12.70	3.43	0.00	151.79
Return on equity	0.27	0.07	-0.24	0.23	0.13	0.39
Return on capital employed	0.34	0.09	-0.38	-0.06	0.16	0.49
Leverage Ratios						
Debt equity ratio	0.65	0.47	-0.90	0.86	0.20	1.48
Debt ratio	0.275	0.080	-0.689	0.51	0.169	0.439
Interest coverage ratio	370.12	377.12	3.95	1.68	21.30	1446.75
Proprietary ratio	0.78	0.06	-0.87	0.00	0.67	0.86
Efficiency Ratios						
Fixed asset turnover	6.72	1.16	-1.05	-0.36	4.66	8.45
Net profit ratio	0.19	0.05	-0.01	-0.58	0.07	0.27

Table 3. Descriptive Statistics of Financial Ratios under IFRS

IFRS Ratios	*Mean*	*SD*	Kurtosis	Skewness	Min	Max
Liquidity Ratios						
Current ratio	3.73	1.48	-0.33	0.89	1.90	6.55
Quick ratio	3.15	1.38	0.15	1.23	1.83	6.06
Cash ratio	1.42	1.47	0.09	1.29	0.17	4.58
Profitability Ratios						
Return on intangibles	17.27	36.23	12.97	3.47	0.00	157.71
Return on equity	0.26	0.06	-0.41	0.17	0.14	0.36
Return on capital employed	0.32	0.07	-0.02	-0.27	0.16	0.44
Leverage Ratios						
Debt equity ratio	0.57	0.43	-0.92	0.84	0.15	1.28
Debt ratio	0.231	0.084	-0.708	0.608	0.127	0.404
Interest coverage ratio	219.38	231.13	2.19	1.43	12.55	828.71
Proprietary ratio	0.83	0.07	-1.54	-0.29	0.72	0.90
Efficiency Ratios						
Fixed asset turnover ratio	6.77	1.16	-1.42	-0.02	5.09	8.53
Net profit ratio	0.19	0.05	-0.31	-0.55	0.07	0.28

significance of differences between the ratios computed under IFRS and IGAAP. Wilcoxon test uses the median values of the financial ratios and financial statement items to arrive at the statistical significance.

The Table 4 shows the median values of financial ratios calculated under both IGAAP and IFRS and the percantage change in the median values of ratios. In addition, it also reports the statistical significance of the

Table 4. Median Values of Financial Ratios under IGAAP and IFRS

Financial Ratios	IGAAP	IFRS	% change in median values	*p* - value
LIQUIDITY RATIOS				
Current ratio	2.74	3.31	21%	0.000
Quick ratio	2.16	2.60	21%	0.000
Cash ratio	0.63	0.80	27%	0.016
PROFITABILITY RATIO				
Return on intangibles	5.11	5.32	4%	0.888
Return on equity	0.26	0.24	-5%	0.003
Return on capital employed	0.34	0.32	-4%	0.001
LEVERAGE RATIO				
Debt equity ratio	0.47	0.42	-11%	0.000
Debt ratio	0.264	0.205	-22%	0.000
Interest coverage ratio	374.06	140.67	-62%	0.007
Proprietary ratio	0.77	0.84	9%	0.000
EFFICIENCY RATIO				
Fixed asset turnover ratio	6.79	6.69	-1%	0.747
Net profit ratio	0.20	0.20	0%	0.014

Table 5. Percentage Change in Financial Statement Items (₹ in Crores)

Financial Statement items	Sum under IGAAP	Sum under IFRS	% change
Revenue	6,21,915	6,21,891	0%
Net Income	1,31,983	1,34,409	2%
Current Assets	4,22,282	4,25,407	1%
Current Liability	1,55,014	1,27,768	-18%
Shareholder Equity	4,55,527	4,90,744	8%
Invested Capital	6,34,927	6,37,454	0%

differences between the ratios. The results indicate that in case of liquidity ratios, the percentage change in median values is positive, and all the ratios are statistically significant at the 1% level. With regard to profitability ratios, though percentage change in the median value is positive for return on intangibles, it is not statistically significant. However, with negative difference in the median values, both return on equity and return on capital employed are statistically significant at the 1% level. All the leverage ratios are found to be statistically significant at the 1% level with the exception of interest coverage ratio, which is significant at the 10% level. Except proprietary ratio, all other ratios show a negative difference in the median values. Net profit ratio under efficiency ratio shows zero difference in the median values and is found to be statistically significant, while fixed asset turnover ratio is not significant and the difference in the median values is also negative.

To further explain the reason for difference between financial ratios, the study examines the difference between the IGAAP and IFRS based financial statement items.

The Table 5 postulates the sum under IGAAP and IFRS and the percentage change of selected financial statement items, which were used to calculate the ratios studied. These were major financial statement items considered for calculating the ratios. The Table 5 portrays that there is a -18% decrease in current liability while reporting under IFRS compared to IGAAP. Though there is not much of an increase in current assets (1%), the

Table 6. Median Values of Financial Statement Items

Financial Statement Items	Median Value	Median Value	Median Value difference	%change in Median Values	*p*- value
Revenue	1,75,378	1,75,381	3	0.00%	0.66
Net Income	35,548	36,004	456	1.28%	0.14
Current Assets	1,32,803	1,33,643	840	0.63%	0.46
Current Liability	45,344	32,896	-12447	-27.45%	0.07
Shareholder Equity	1,43,644	1,53,730	10086	7.02%	0.07
Invested Capital	2,03,454	2,04,285	831	0.41%	0.27

decrease in current liability explains the increase in all the liquidity ratios under IFRS. Shareholder's equity shows an increase of 8%. Increase in equity under IFRS explains the decrease in profitability and leverage ratios. All the other financial statement items - revenue, net income, current assets, and invested capital show either no difference or marginal increase.

To further test the significant differences between IGAAP and IFRS on the change in financial statement items, the median values were calculated. The Table 6 presents the median values of financial statement items calculated both under IFRS and IGAAP. The result shows a -27.45% decrease in the median value of current liability and 7.02% difference in the median values of shareholder equity with *p* - values significant at the 10% level for both the ratios. The changes in the median values are in line with the changes found in the sums. All the other financial statement items examined are not found to be statistically significant.

Discussion

Analysis of financial statement items shows, in general, an increase in shareholder equity and decrease in liabilities, explaining the reasons for the difference in the ratios calculated. This is in line with the results obtained by Ray (2012), who found prominent deviation under total liabilities and equity. The deviation was attributed to reclassification between equity and liability. However, our results are in contrast with the study results of Lantto and Sahlstrom (2009) and Punda (2011), who found an increase in debt and decrease in shareholder equity explaining the difference in the ratios studied by them in UK and Finland, respectively. Our study results are also in contrast to the study of Stent et al. (2010), among New Zealand countries, who also found an increase in liability and decrease in equity. Income tax and employee benefits were found to be the reasons for increase in liabilities, and financial instruments were the most common reason for decrease in equity. A large and growing literature investigating the effects of adoption of IFRS, a transforming event in global financial markets, found that the effects are not homogeneous and are linked to the national and institutional setting for financial reporting (Brown, 2011).

The difference in the median values of revenue under IFRS and IGAAP is zero, and this is also not found to be statistically significant. This is in line with the study of Punda (2011), who found -18.45% changes in median values of revenues under UK GAAP and IFRS, but the difference was not found to be significant. It has been observed from the financial statements of our sample companies that the same amount of revenue was reported both under IFRS and IGAAP. It can thus be inferred that IAS 18 – Revenue recognition did not have a statistical impact on the financial statements and hence on the ratios of the sample IT companies.

Net income, though not statistically significant, shows a marginal increase of 1.28% under IFRS. Net profit ratio calculated in the study also shows zero difference. Though there was a negative impact of IFRS 2 – Share based payment ; IAS 39 - Financial Instruments: Recognition and Measurement and IAS 19 - Employee benefits, the impacts were not significant (Ray, 2012; Swamynathan & Sindhu, 2011). However, the study by Punda (2011)

among UK companies showed an increase of 56% in net income after conversion to IFRS, and this difference was also statistically significant. Studies by Lantto and Sahlstrom (2009) and Iatridis and Dalla (2011) also found an increase in profitability ratios under IFRS. They attributed the increase in profitability ratios to a positive impact of IAS 19 - Employee Benefits, IFRS 3 - Business Combinations, and negative impact of IFRS 2 - Share based payment. Their studies in general also found a positive change in income statement items and negative change in balance sheet figures.

In case of current assets, the median difference between IGAAP and IFRS is very negligible, and the result is also not statistically significant. The small difference is due to IAS 39 - Financial Instrument - Recognition & Measurement ; IAS 17 - Leases, and reclassification of investment to current assets and IAS 12 – Income Taxes. This again corresponds with the results of Punda (2011), who found median difference between UK GAAP and IFRS as zero and the result too was not statistically significant.

With regard to current liability, our study finds a decrease in the median values of IFRS and IGAAP to the extent of -27.45%, and the same is also statistically significant at the 10% level. Accordingly, all the liquidity ratios analyzed in the study are higher under IFRS and are found to be significant at the 1% level. These results are in line with the study results of Bhargav and Shikha (2013). The decrease in liability can be explained by IAS 39 - Financial Instruments - Recognition and Measurement, IAS 10 - Events after the balance sheet date, and IAS 1 - Presentation of financial statement. However, this is not in consistent with the results of Lantto and Sahlstrom (2009) and Punda (2011), who found an increase in current liability and hence decrease in the liquidity ratios under IFRS. This decrease in the ratio was explained by decreasing impact of IAS 17 - Leases, IAS 39 - Financial Instrument - Recognition and Measurement, and IAS 12 - Income Taxes on the denominator of the ratio and increasing impact of IAS 2 - Inventories was seen on the numerator of the ratio.

The median values of shareholder equity show an increase of 7.02%, and the increase is found to be statistically significant at the 10% level. The increased equity in the denominator results in the decrease in the ratios - return on equity and debt equity ratio. Provision for dividend recognized in retained earnings under IGAAP was derecognized under IFRS as IFRS accounts for dividend only after it is approved by shareholders. Added to this, the presentation difference with respect to minority interest within equity also results in increased equity under IFRS. Increase in equity is also due to the effect of IFRS 2 – Share based payment ; IAS 39 - Financial instruments - Recognition & Measurement ; IFRS 10 - Consolidated financial statement, and negative impact of IAS 1 – Presentation of financial statements. The results are consistent with the study of Ray (2012), who concluded that increase in equity and decrease in total liabilities resulted in lower debt equity ratio. Conversely, this result is in contrast with the study results of Dunne et al. (2008) ; Lantto and Sahlstrom, (2009) ; and Punda (2011), who found decrease in shareholder equity post IFRS adoption. They attributed the reasons for the decrease in shareholder equity to IFRS 3 – Business Combinations, IAS 19 – Employee Benefits, IAS 38 – Intangible assets, and IAS 12 – Income Taxes.

While our study shows an increase in equity leading to decrease in returns on equity and debt equity ratios, results of Lantto and Sahlstrom (2009) and Dunne et al. (2008) showed an increase in returns on equity due to increase in net income and decrease in shareholder equity.

The last financial statement item examined in the study is invested capital. There is a slight 0.41% increase in invested capital under IFRS. Reporting under IFRS necessitates reclassification of debt and equity in the balance sheet. Proposed dividend, which was recognized under provision (liability) in IGAAP was derecognized and was added back to retained earnings (equity) as IFRS does not provide for dividend before it is approved. Similarly, share application money pending allotment recognized under equity in IGAAP was reclassified under other liability in IFRS. Redeemable preference shares with fixed maturity treated as equity under IGAAP was treated as current liability under IFRS. Because of all these presentation differences and reclassification between equity and debt under IFRS, the bottom line figure of total equity and liability remains same and the study also finds no

change in the median values of invested capital.

The proprietary ratio (equity ratio) shows an increase of 9% under IFRS and is also statistically significant. The increase in equity ratio is explained by increase in IAS 38 – Intangible assets and increase in shareholder equity. This is in contrast to the study results of Lantto and Sahlström (2009), who found a decrease in equity ratio under IFRS. They found that IAS 17, IAS 19, and IAS 32 had a decreasing effect on the equity ratio. In addition, they also found IAS 16 - property, plant, and equipment, IAS 36 - Impairment of assets, and IAS 12 - Income tax having decreasing effect, and IAS 38 - Intangible assets to have an increasing impact on the equity ratio.

Though returns on intangibles are not statistically significant, there is an increase of 4% in the median values under IFRS. The difference is due to the effect of IAS 38 – Intangible assets and IFRS 3 – Business Combinations. IFRS 3 requires recognizing customer related intangibles and contingent consideration if it can be measured, and if it is likely to be paid ; whereas, IGAAP did not recognize customer related intangibles, and contingent consideration was recognized only after it was resolved.

Difference in the median values in case of fixed assets turnover ratio is slightly negative, and the difference is also not statistically significant. The difference is explained by an increase in fixed asset due to IAS 17 – Leases, where in, under IFRS, lease of land is classified as operating lease and accordingly, lease advance and rentals are treated as other assets. This result is in conformity with the results of Swamynathan and Sindhu (2011). The negative difference is also due to advances paid for acquisition of property, plant, and equipment, which are outstanding at reporting date and are disclosed as capital work in progress under IFRS. Under IGAAP, these advances are shown under long term loans and advances. This reporting difference and the fair valuation increases the denominator and reduces the ratio under IFRS.

Research Implications

Indian companies are still apprehensive in reporting under the new accounting standards. They may find this study useful as this clears many misconceptions on the financial performance of the companies. Most of the ratios generally looked into by various external stakeholders for investment or for lending have shown positive effect, indicating that the financial performance of companies improve under IFRS, which would facilitate the management as below :

- Increase in liquidity position helps managers not only to address fixed obligations of a company, but also helps them in taking decisions with regard to declaration of dividend, expansion, diversification, etc.
- Decrease in liabilities results in a company adding value to investors in the form of financial assets.
- Decrease in debt equity ratio reflects the financial health and managerial efficiency of a company to external stakeholders.
- Increased proprietary ratio indicates management efficiency in structuring the capital wherein profits are not used to pay back the debt.
- By reporting under a single accounting standard followed by companies across the world, this reduces the cost of raising capital, avoids multiple reporting, aids in better comparison and effective decision making.

Conclusion

This study supports the literature on the impact of adoption of IFRS on accounting figures and key financial ratios of sample companies used by investors, creditors, analysts, etc. Out of the 12 ratios analyzed, the results postulate

an increase in all the liquidity ratios ; decrease in profitability ratios except return on intangibles; decrease in leverage ratios except proprietary ratio; and decrease in fixed asset turnover ratio, and no change in net profit ratios. The major differences in the financial ratios are explained by financial statement items - equity and liability. Increase in equity and decrease in liability explains the reasons for the difference in the ratios analyzed. The deviation in equity and liability under IFRS is due to the presentation and reclassification of assets and liabilities in the financial statement under IFRS. Overall, our results indicate that fair value accounting, lease accounting, financial instruments - recognition and measurement, presentation of financial statements, and share based payment are the main reasons for change in financial ratios analyzed.

Limitations of the Study and Scope for Further Research

Since very few companies are reporting IFRS in their annual report submitted to Indian regulatory authorities, the sample size was a limiting factor. As the study is on the IT sector, the results cannot be generalized to other sectors. Non availability of financial statements of companies who report under IFRS directly to stock exchanges abroad also reduced the sample size.

Since convergence to Ind AS was to be voluntary from 2015-16 and mandatory from 2016-17, further studies can consider increasing the sample size for analysis. Studies can also be carried out to measure the financial performance of companies' pre and post adoption of IFRS. Going forward, a comparison between mandatory and voluntary adoption of IFRS could also be made. Further research with extended sample size can also analyze and compare the effect of audit fees and consultancy charges on the income statement of companies. This study has looked only into the IT sector which does not have heavy inventory as against the manufacturing sector. Future studies can look into the effect of inventory valuation under IFRS on the financial statements.

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