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"ADOPTION OF IFRS AND ITS IMPACT ON THE FINANCIAL PERFORMANCE OF IT SECTORS"-EVALUATE

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ABSTRACT

Multinational companies are establishing their businesses in the different sectors in India. These Indian business firms are presenting financial statements as per IFRSs, Indian GAAPs, USGAAPs, Japan GAAP, etc., With a view to avoiding this kind of inconvenience, the accounting bodies across the world are working towards a standard set of accounting policies, valuation norms, and disclosure requirements. In this scenario, there is a requirement of transition from Indian GAAP to IFRS for India in all the sectors. An upcoming economy on world economic map, India, too, decided to converge with IFRS by developing a standard called Ind AS. The main purpose of this study is to identify the statistically significant differences between the Indian GAAP-based and IFRS-based financial statements of companies in terms of financial statement items through the calculated financial ratios. The analysis is based on the sample of 4 Information technology companies that have voluntarily adopted IFRS reporting. Financial statements prepared as per Indian GAAP and IFRS were obtained for a period of 6 years. The study used the Gray comparability index to analyze the relative effect, the Wilcoxon's signed ranks test, these help us to Identify significant differences between Indian GAAP-based and IFRS-based financial ratios, the study revealed that IFRS adoption has effectively used by various IT listed companies.

KEYWORDS: *GAAP, IFRS, Reporting Standards, Financial Ratios, and Companies*

INTRODUCTION

In the past, companies submitted their annual financials to regulators and banks as a mandatory disclosure, as users of these financial statements were few, with creditors being a major stakeholder. Others are investors, employees, customers, and management. Employees were happy as long as they were rewarded with good return; employees with their salaries and benefits; customers with quality product at competitive prices. The necessity to read financial statements was never felt by these stakeholders. Even, the focus of financial statement was on providing financial information to stockholders and creditors to measure management's performance, and for taxation purpose. However, globalization has given a new twist to the financial market with a change in focus from traditional stewardship to a broader stakeholder focused fair valuation.

The framework of IFRS also emphasizes that financial information provided should help stakeholders to make economic and other decisions. Today, doing business is not only attractive but complex with a higher level of expectations by various stakeholders with different phases of economy and stages of product/services. Business solutions, although look simple have taken manifold deliverables with shared governances with various aspects, parties, compliances, standards etc. in a multi-country focus of businesses. Investors are always on the lookout for newer investment opportunities in any part of the world, which would add value to them. Expansion of markets internationally has deprived local companies of the home market advantage. Even small and medium industries are exposed to competition, in and around the world. Employees and Customers take pride in identifying themselves with brands. The reputation associated with good financial reporting is more when brands become associated with a company's name. As financial statements are the means through which businesses communicate to these various stakeholders, the requirement of a uniform system of financial reporting became a necessity. Supporters of International Financial Reporting Standards (IFRS) consider that financial statements prepared are to meet the needs of various stakeholders.

Purpose of any financial reporting is essentially to reduce information asymmetry between corporate managers and parties contracting with their firm. It is for corporate managers to reduce this information asymmetry by providing transparent financial reports. The IFRS framework IASB provides four principal quality features: relevance, reliability, understandability, and comparability. Information is said to have relevance only when it helps users in decision-making process by evaluating various options. As users of financial statements do not have access to books and records based on which financial statements are prepared, they depend on companies audited financial statements, which are presumed to be both reliable and relevant. To ensure the reliability and relevance of financial statements, companies in the US frequently employ Certified Public Accountant (CPA) firms to validate that the companies' financial information adhered to Generally Accepted Accounting Principles (GAAP).

International Financial Report Standards

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

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

India is one of the key global players, migration to IFRS will enable Indian entities to have access to international capital markets without having to go through the cumbersome conversion and filing process. It will lower the cost of raising funds, reduce accountants' fees and enable faster access to all major capital markets. Furthermore, it will facilitate companies to set targets and milestones based on a global business environment rather than an inward perspective. Indian Government has recently issued new Indian accounting standards (Ind-AS) which are converged with IFRS. In a phased manner, the companies registered in India will be required to present their annual accounts according to new norms with effect from April 2016. Convergence with IFRSs" means adoption of IFRS by various Indian companies. In this study focused on the few IT companies voluntarily adopted IFRS to regulate their financial performance.

REVIEW OF LITERATURE

Blanchette, Racicot, and Girard (2011) in their research examined the impact of the adoption of IFRS on liquidity, leverage, coverage and profitability ratios in a sample of companies seated in Canada. Survey results showed differences in means, medians, and volatility in most financial ratios of companies. Pazarskis et al. (2011) examined the possible impact of the adoption of IFRS by Greek companies of the information technology sector. The results of their research revealed that there was a statistically significant difference only at margin ratios EBIT (increase) and a leverage ratio (decrease). Dimitrios et al. (2013) observed the probability of quantitative differentiation in financial ratios due to transition from Greek accounting standards to IFRS. The results of the research showed that both samples of companies do not have significant differences in their behavior after the implementation of IFRS. Terzi, Otkem and Sen (2013) They observed an increase in liquidity and profitability, but no significant changes in stock turnover, current assets, and current liabilities. Ibiamke and Briggs (2014) found that IFRS adoption caused a negative impact on the financial ratios when tested on the Nigerian listed companies. Pawel Punda 2011 study shown the result of that increase in Profitability ratios, liquidity ratio noted less significant, but still a quite substantial increase, and however, one market-based ratio (P/E ratio) noted slight decrease after the conversion to IFRS. The obtained results indicate that the increase in profitability ratios and a decrease in P/E ratio are due to very high-income statement profits under IFRS. A survey questionnaire by Richard D. Morris (2014) shows that the IFRS implementation significantly reflects more respondents rated as difficult, considerable, or serious, rather than as easy or little, items making up General Issues with IFRS and Accounting Issues. On the other hand, significantly more respondents rated as little, rather than as significant, the items making up Capital Market Impact of IFRS and Benefits of IFRS.

Objectives of the Study

- · To understand the concepts like IFRS, IGAAP and Ind As.
- · To determine the impact of IFRS adoption and its effective uses on various IT industries
- · To analyze the adoption of IFRs among four IT companies and ascertain itsimpact on financial performance of companies with the attributes of financial ratios of companies balance sheet like Return on equity, Net profit and Earning Per Share Ratios.

Hypothesis of the Study

H1 Ho: Transition to IFRS from Indian GAAP has no impact on Return on Equity (ROE).

Ha: Transition to IFRS from Indian GAAP has an impact on Return on Equity (ROE).

H2 H0: Transition to IFRS from Indian GAAP has no impact on Net Profit Ratio.

Ha: Transition to IFRS from Indian GAAP has an impact on Net Profit Ratio.

H3 H0: Transition to IFRS from Indian GAAP has no impact on Earnings Per Share.

Ha: Transition to IFRS from Indian GAAP has an impact on Earnings Per Share.

DATA COLLECTION

The present study used the three IT companies namely Wipro Infosys and TCs. Out of all the companies working in India, only IT companies which have voluntarily adopted IFRS in India have been selected for the study. Period of study comprises of 6 years i.e. from 2010-11 to 2015-16.

Data Analysis

The study used Gray's comparability index or Gray's index of conservatism and Wilcoxon signed-ranks test to analyze the financial performance of IT companies after the adoption of IFRs.

Table 1: Gray's Comparability Index- Wipro

Ratios	I GAAP Mean	IFRS Mean	RIFRS*
Return on Equity	0.2259	0.2137	1.05719
Net profit margin	0.1713	0.1735	0.98748
Earnings per Share	28.9650	29.1267	0.99445

* GIC=1-(RIFRS-RGAAP).

Table 2: Wilcoxon Sign Rank Test- Wipro

Ratio	Z	Sig.(2 Tailed)
Return on Equity	-1.9920	0.0460
Net profit margin	-0.5240	0.6000
Earnings per Share	-0.7340	0.4630

Table 3: Gray's Comparability Index - Infosys

Ratios	I GAAP Mean	IFRS Mean	RIFRS*
Return on Equity	0.2508	0.2329	1.07649
Net profit margin	0.2374	0.2313	1.02648
Earnings per Share	119.235	121.52	0.98110

Table 4: Wilcoxon Sign Rank Test-Infosys

Ratio	Z Statistic	Sig.(2 Tailed)
Return on Equity	-2.2070	0.0270
Net profit margin	-0.2010	0.0280
Earnings per Share	-0.1050	0.9170

Table 5: GIC on TCS

Ratios	IGAAP Mean	IFRS Mean	RFRS
Return on Equity	0.3726	0.3443	1.08205
Net profit margin	0.2241	0.2266	0.98894
Earnings per share	82.1050	83.6233	0.98184

Table 6: Wilcoxon SIGN Rank Test TCS

Ratio	Z Statistic	Sig.(2 Tailed)
Return on Equity	-2.2010	0.0280
Net profit margin	-0.1050	0.9170
Earnings per Share	-0.3140	0.7530

Result of the Study

GIC test on Wipro shows that comparison of IFRS and IGAAP. net profit margin and EPs values lie between 0.95 and 1.05 , therefore the level of prudence are equal. In case of Return on equity is greater than1.05, therefore IGAAP less prudent than IFRS.

The study used the Wilcoxon signed-ranks test on Wipro, It is shown that statistically significant on the variable name is a return on equity ratio, it is not effectively influenced by the adoption of IFRs. In case of other attributes like EPs, Net profit margin revealed that adoption of IFRS is effectively influenced those profitability ratios.

GIC test on Infosys shows that comparison of IFRS and IGAAP. net profit margin and EPs values lie between 0.95 and 1.05 , therefore the level of prudence are equal. In case of Return on equity is more than1.05, therefore IFRS less prudent than IGAAP.

The study used the Wilcoxon signed-ranks test on Infosys, the variables like Roe and shows that statistically significant. it is not effectively influenced by the adoption of IFRs. In case of other attributes like EPs revealed that adoption of IFRS is effectively influenced those profitability ratios. Because it is not statistically significant.

GIC test on TCS shows that comparison of IFRS and IGAAP. net profit margin and EPs values are less than 1.05, its IFRS is greater prudent value than IGAAP. In the case of Return on equity ratio attainedmore than1.05, therefore IFRS less prudent than IGAAP.

The study used the Wilcoxon signed-ranks test on Tcs, the variables Roeindicated there is no statistically significant among the variable. it is effectively influenced by the adoption of IFRs. In the case of other attributes like EPs and Net profit margin ratio revealed that the adoption of IFRS is not effectively influenced those profitability ratios. Because it is statistically significant.

SUGGESTIONS

IFRS is considered a widely accepted set of accounting standards. Few IT companies in India have started publishing their financial results under IFRS voluntarily since 2001. This study supports the literature on the impact of IFRS adoption on accounting figures and key financial ratios of few IT companies used by investors, creditors, analysts etc. The studyattempted to attain objective to prove the adoption of IFRS and its impact of financial performance of IT companies. The study used the profitability ratio to ascertain the influences of IFRs. It is revealed that influenced into the few variables. The IT companies should aware about the important of IFRS application usage in their financial statements. The study is tried to suggest that all Industry employees should be trained for the adoption of IFRS and to develop the financial growth of the company.

CONCLUSIONS

IFRS adoption requires providing more extensive information, transparency, quality and control systems of companies get strengthened. Thus IFRS not only impact the accounting figures but also brings in changes within the organization by strengthening their internal systems and processes. Overall the results indicate that adoption of fair value accounting and strict requirement in adhering to accounting standards have strengthened the financial figures and provided decision makers a transparent, true and fair accounting picture. Though the initial cost involved in transition is high, companies need to adopt IFRS to participate in a globalized financial market, to enable investors and other users of financial statements

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