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To Study the Impact of Convergence to IFRS on Financial Position of a company and challenges faced by the company: A case study in India

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ABSTRACT
International Financial Reporting System (IFRS) is the new language of financial reporting and communication to investors and other stakeholders. More than 120 countries have adopted the process of convergence with IFRS. India has committed itself at the G-20 to make the companies IFRS compliant from April 1st, 2011 in a phased manner. The goal of IFRS is to create comparable, reliable and transparent financial statement that will facilitate greater cross-border capital raising, trade and better corporate governance practice. The paper attempts to show the impact of convergence to IFRS on financial position of the company. The secondary data is studied to know the impact of convergence to IFRS on financial position with the help of case study of WIPRO limited. It also discusses the challenges faced by firms in the process of adoption of IFRS in India. The paper concludes the ways through which these challenges can be addressed.

KEYWORDS : IFRS, Indian GAAP, Convergence, financial position

INTRODUCTION:
IFRS are set of accounting standards developed by International Accounting Standard Board(IASB).IFRS were adopted legally first time in 2005 by European Union. Other countries with developed capital markets have adopted or in the process of adopting IFRS in for reporting purpose.

In India, Accounting standards are formulated by council of Institute of Chartered Accounts of India (ICAI). In 2007 ,India has decided to converge with IFRS in 2007.ICAI started the process of developing a complete set of accounting standard that are "converged with" IFRS- which will be known as Indian AS . There is a difference between adoption and convergence to IFRS. Adoption means using IFRS as issued by IASB. Convergence means that the Indian Accounting standard board and IASB would continue working together to develop high quality, compatible accounting standard over time.

India announced that it will converge to IFRS in phased manner. In first phase, i.e., 1-4-2011 to 31-3-2012, all companies that are part of NSE-Nifty 50 index, BSE sensex Index , or have shares listed in overseas stock exchange or listed or unlisted having net worth in excess of Rs 1000 crores were said to converge to IFRS. In second phase during 1-4-2013 to 31-3-2014, all listed and unlisted companies with net worth in excess of Rs 500 crores but not exceeding Rs 1000 crores will be converged to IFRS. In third phase during 1-4-2014 to 31-3-2015, all listed entities with net worth of Rs 500 crores or less will converge their financial statements with IFRS.

LITERATURE REVIEW:
Lantto & Sahlstrom (2009) also undertook a study of key financial ratios of companies of Finland and later found that the adoption of IFRS changes the magnitude of the key accounting ratios and 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.

Shobana Swamynathan(2011) studied the impact of IFRS on financial statements .It was found that **t**here is significant change in the Total Equity and total liability position on convergence to IFRS but not prominent changes in the Total Asset Position. It was concluded that IFRS is fair value oriented and Balance Sheet oriented accounting where there are more transparent disclosures and Indian GAAP is conservative approach.

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.

S.Yadav (2012) studied the impact of adoption of IFRS, challenges that will come up and its adoption procedure in India. And found that transition from Indian GAAP to IFRS will face many difficulties but at the same time looking at the advantages that this adoption will confer, the convergence with IFRS is strongly recommended. This transition is not without difficulties as to the proper implementation process which would require a complete change in formats of accounts, accounting policies and more extensive disclosure requirements.

OBJECTIVES OF THE STUDY:
- To examine the impact of convergence to IFRS on financial position of the company-A case study of Wipro Company.
- To study the problems and challenges faced by Indian companies in the process of convergence to IFRS.
- To find out the measures a firm should take to address the challenges.

IMPACT OF CONVERGENCE TO IFRS ON FINANCIAL POSITION OF THE COMPANY:
Wipro limited is a global leader in providing IT services; outsource R & D, infrastructure service, Business process services and business consulting. In this paper, annual report of Wipro prepared for the year ended 31-3-2013 using IFRS and Indian GAAP is considered.

Table 1:COMPARISON OF IFRS AND INDIAN GAAP STATEMENT				
BALANCE SHEET OF WIPRO AS OF 31st March,2013				
			(Rs in millions)	
Particulars	Amount as per Indian GAAP	Amount as per IFRS	Difference	%Change
Goodwill	54,282	54756	474	0.87
Intangibles	299	1714	1,415	473.24
Available for sale investment	49448	53607	4,159	8.41
Current investment	67646	69171	1,525	2.25
Inventories	3263	3263	0	0.00
Trade receivables	76698	76635	-63	-0.08
Unbilled Revenue	nil	31,988		
cash and equivalents	84838	84838	0	0.00
Net tax assets	1022	4235	3,213	314.38

other assets	47552	41377	-6,175	-12.99
Advances	51691	18146	-33,545	-64.90
Total assets:	436,739	439,730	2,991	0.68
Total equity	265646	284983	19,337	7.28
Minority interest	1171	Nil		0.00
Deferred tax liabilities	528	846	318	60.23
Trade payables	48358	48067	-291	-0.60
Unearned revenues	nil	10347		
other liabilities and provisions	121036	95487	-25,549	-21.11
Total liabilities and equity	436739	439730	2,991	0.68

Source: Annual report of Wipro for the year 2012-2013

Interpretation:
The total assets and liabilities under IFRS is more than the Indian accounting standards by 0.68% .The most probable reasons are its fair value measurement, difference in the basis of interest capitalization, deferred tax asset recognition and difference in accounting for foreign currency forward contracts. Minority interest is not treated as part of equity and under IFRS 1 First time adoption. The equity under IFRS has increased by 7.28% when compared to Indian accounting standard and investment available for sale has also increased by 8.41% under IFRS.

MAJOR CHALLENGES IN THE PROCESS OF ADOPTION OF IFRS IN INDIA:

IFRS is a set of international accounting and reporting standards which will help to harmonize company financial information, improve the transparency of accounting, and ensure that investors receive more accurate and consistent reports. Despite several benefits as may be looked out by the different people, there will be several challenges that will be faced on the way of IFRS convergence.

1. Difference in GAAP and IFRS:
Adoption of IFRS means that the entire set of financial statements will be required to go through a severe change. There are ample of differences. It is the challenge to generate awareness of IFRS and to identify its impact among the users of financial statements.

2. Training and Education:
Lack of training amenities and academic courses on IFRS will also pose challenge in India. There is a need to be educated on IFRS and its application.

3. Legal and Regulatory considerations:
Presently the reporting requirements are governed by various regulators in India and their provisions override other laws. IFRS does not recognize such overriding laws. The regulatory and legal requirements in India will act as a challenge unless the same laws have addressed by respective regulatory.

5. Taxation Aspect:
IFRS convergence would affect the majority of the items in the financial statements and consequently the tax liabilities would also experience a change. Thus the taxation laws should address the dealing with tax liabilities arising on convergence from Indian GAAP to IFRS.

6. Measurement using fair value:
Fair value approach is used by IFRS as a measurement base for valuing the majority of the items of financial statements. The application of fair value accounting can bring a lot of volatility and subjectivity to the financial statements. It also involves a lot of hard work in finding the fair value and experts valuation have to be used.

7. Reporting systems:
Companies would have to make sure that the existing business reporting model is amended to go well with the reporting requirements of IFRS. The information systems should be planned to capture new requirements related to fixed assets, segment disclosures, related party transactions, etc.

MEASURES THAT SHOULD BE TAKEN BY COMPANIES TO ADDRESS THE CHALLENGES:

1) The companies should follow the recommendations given by Accounting Standard board for changes required in rules and regulations of various regulatory bodies.
2) The companies should use the interpretations of accounting standards issued by ICAI, with a view to resolve various complicated interpretational issues arising in the implementation of new accounting standards.
3) Companies should take benefit of the guidance notes, background materials on newly issued accounting standards issued by ICAI.
4) For the purpose of supporting its members, the ICAI council has created an expert advisory committee to answer queries from its members. Companies can ask to the experts for resolving the critical issues.

CONCLUSION:

The study investigates the impact of convergence to IFRS on financial position of the company with the help of a case study of Wipro and challenges to be faced by companies in such convergence• It is observed that there are differences in the Total liability and Equity position which is mainly because of reclassification between Equity and Total liability. The Fair value measurement of Available for sale investment in IFRS is higher. From all these observations it can be concluded that IFRS is fair value oriented and Balance Sheet oriented accounting where there are more transparent disclosures and Indian GAAP is conservative approach. It is observed that this transition is not without difficulties .It would require an entire change in formats of accounts, accounting policies and more extensive disclosure requirements. Indian Corporate World which has been preparing its Financial Statements on Historical Cost Basis will have tough time while shifting to Fair Value Accounting. But it is not impossible for Indian companies to converge with IFRS as many helps from ICAI is given such as guidance notes, expert services as well as ICAI have also issued the interpretation notes for complicated issues.

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