Financial Reporting under Indian GAAP and Ind AS: A Comparative Study Using GRAY Index on Select Indian Pharmaceutical Companies

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Abstract: Today business houses across the world changed significantly due to globalization. They cross the national borders and make it feel to the investing community of the whole world to invest in their business house and made the whole world as one market. As a result for better understanding of the business reporting and to enhance the transparency and comparability of financial reports, which enable users to take appropriate decisions, there was felt an urgent need of widely accepted, high quality financial reporting. This lead to the requirement of harmonization of Accounting Standards or moving towards a global Accounting Standards which are better known as International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

Need of global convergence of accounting standards leads to adoption of IFRS in India. As a result The Ministry of Corporate Affairs (MCA), Government of India in 2015, has notified the companies Indian Accounting Standards (IND AS) Rules 2015, which stipulated the adoption and applicability of IND AS in a phased manner beginning from the accounting Period 2016-17. All the countries which has converged their accounting standards as per IFRSs may found an impact on the financial reporting. Financial reporting in India is converging into IFRS from Indian GAAP through Indian Accounting Standards (Ind ASs) in a phased manner. The present research paper tries to evaluate the impact of new Ind AS on financial reporting of some select Indian Companies (Pharmaceuticals sector) who are starting Ind ASs for financial reporting from 2017-18.

Keywords: Financial reporting, IFRSs, Ind Ass

I. INTRODUCTION

Globalization has made it possible to recognize the world as one market due to not only the emerging cross-border operations but also the raising finance from international capital and money market. So the regional accounting standards (languages) are no more justified as the stakeholders spread across the world. Hence, for better understanding of the business reporting and to enhance the transparency and comparability of financial reports, which enable users to take appropriate decisions, there was felt an urgent need for widely accepted, high quality financial reporting. This lead to the requirement of harmonization of Accounting Standards or moving towards a global Accounting Standards which are better known as International Financial Reporting Standards (IFRSs) issued by International Accounting Standards Board (IASB) and comprises of International Accounting Standards issued by International Accounting Standards Board, International Financial Reporting Standards (IFRSs), Interpretations issued by Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC). The use of a single set of high quality accounting standards would facilitate investment and other economic decisions across borders, increase market efficiency, and reduce the cost of raising capital.

IFRS are a set of high quality standards announced by IASB an international standard-setting body based in London. The IASB places emphasis on developing standards based on sound understandability and comparability stated principles to make it as common global accounting language for the business community across the world, because the use of one set of high-quality standards by companies throughout the world improves the comparability and transparency of financial information and reduces financial statement preparation costs. When standards are applied rigorously and consistently, capital market participants receive higher quality information and can make better decisions. Thus, markets allocate funds more efficiently and firms can achieve a lower cost of capital.

Approximately 120 nations and reporting jurisdictions permit or require IFRS for domestic listed companies, although approximately 90 countries have fully conformed to IFRS as promulgated by the IASB and include a statement acknowledging such conformity in audit reports.

II. IFRS ROAD MAP IN INDIA

India has not adopted IFRS Standards. India has adopted Indian Accounting Standards (Ind AS) that are based on and substantially converged with IFRS Standards as issued by the IASB. The Institute of Chartered Accountants of India (ICAI) prepares an exposure draft of the Ind AS on the basis of IFRS Standards. After considering comments, the proposed final Ind AS is approved by the ICAI Council and then adopted by the Ministry of Corporate Affairs via public notification.

The Ministry of Corporate Affairs (MCA), Government of India in 2015, has notified the companies Indian Accounting Standards (IND AS) Rules 2015, which stipulated the adoption and applicability of IND AS in a phased manner beginning from the accounting Period 2016-17. Till now MCA has amend the 2015 rules three times, one in each year 2016, 2017 and 2018.
II. Phases of adoption
MCA has notified a phase-wise convergence to IND AS from current Indian GAAP (IGAAP). IND AS shall be adopted by specific classes of companies based on their Net worth and listing status. Details of phases summarized below:

<table>
<thead>
<tr>
<th>Phase</th>
<th>Categories of companies</th>
<th>Accounting Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phase I</td>
<td>listed or unlisted company having Net Worth more than or equal to Rs. 500 Cr.</td>
<td>1st April 2016</td>
</tr>
<tr>
<td>Phase II</td>
<td>listed or unlisted company having Net Worth more than or equal to Rs. 250 cr. but less than Rs. 500 cr.</td>
<td>1st April 2017</td>
</tr>
<tr>
<td>Phase III</td>
<td>Banks, NBFCs, and Insurance companies having Net Worth more than or equal to Rs. 500 cr</td>
<td>1st April 2018</td>
</tr>
<tr>
<td>Phase IV</td>
<td>All NBFCs whose Net worth is more than or equal to Rs 250 cr. but less than Rs 500 cr.</td>
<td>1st April 2019</td>
</tr>
</tbody>
</table>

Source: Compiled by author

III. REVIEW OF LITERATURE
Kantayya and Panduranga (2017) done a comparative study of Balance Sheets prepared under Indian GAAP and IFRS to Select IT Companies. Findings of the study revealed that there are quantitative differences in the Balance sheet items (viz. total assets, total liabilities and total equity) of Infosys Limited and Wipro Limited prepared under Indian GAAP and IFRS.

Achalapathi and Sireesha (2015) analysed the impact of IFRS adoption through key financial ratios on the stability, liquidity, profitability and valuation of the select 10 Indian companies which have adopted IFRS voluntarily. Gray’s Comparability Index is applied for measuring the relative impact of IFRS adoption on financial ratios of select companies. The study revealed significant differences between Indian GAAP–based and IFRS–based financial ratios and the IFRS adoption has led to statistically significant increase in liquidity, profitability and valuation ratios.

Shukla (2015) investigated the impact of IFRS adoption on financial activities of Indian companies with a sample of ten companies. The study has revealed that there is no significant improvement in financial risk, investment activities, operating activities and debt covenant. In other words, there is no significant change in financial activities due to adoption of IFRS.

Kamath and Desai (2014) investigated the impact of IFRS adoption on financial activities. A sample of eight Indian companies have been selected which have published their financial statements under Indian GAAP and IFRS. The study focused on four most important areas of financial activity, investment activities and operating activities. The results revealed that there is quantitative increased in investment and operating activities due to IFRS adoption. On the other hand, no such improvement is observed in financial activities.

Bhargava and Shikha (2013) analysed the impact of IFRS on financial statements and some significant ratios of Wipro Ltd. The consolidated financial statements as per GAAP are compared with the consolidated financial statements under IFRS. It is found that the variation in total assets and liabilities is because of the reclassification among equity and liability and also because of the difference in the concept of revenue recognition. It is emphasized that IFRS is a fair value principle based accounting which will improve quality of disclosure and enhance international comparability and understanding of financial statements.

Yadav (2012) studied the impact of adoption of IFRS, challenges that will come up and its adoption procedure in India. He 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.

Swamy Nathan and Sindhu (2011) examined the impact on financial statements in convergence to IFRS from Indian GAAP. It is observed that the net income position in IFRS reporting and Indian GAAP is not much different. But there are differences between Equity and Total Liability. The return on equity, return on asset, total asset turnover and net profit ratio are not significantly affected by converging to IFRS but the leverage ratio has shown significant change on convergence with IFRS. The study concluded that IFRS is a fair value oriented and Balance Sheet oriented accounting where there are more transparent disclosures and Indian GAAP is a conservative approach.

IV. OBJECTIVE
The main objective of this paper is to examine the impact of the convergence of IFRSs on the financial reporting of some Indian companies. More specifically objectives of the study are:

1. To find out the impact of Ind AS on Total Income of the company, Total Expense of the company and Profit Before Tax of the company.

2. To examine the impact of Ind AS on non-current assets and non-current liabilities.
V. DATABASE
The study depends exclusively on secondary data. Secondary data has been collected from the annual reports of the select Pharmaceutical companies. For empirical analysis, seven listed pharmaceutical companies have been selected who starting Financial Statements in Ind AS from the year 2017-18. They are Albert David Ltd, Anuh Pharma Ltd, Caplin Point Laboratories Ltd, Coral Laboratories Ltd, Jenburtk pharmaceuticals ltd, Marksans Pharma Ltd, and RPG Lifescience Ltd as a sample of the study. Out of these seven companies Caplin Point Laboratories Ltd and Marksans Pharma Ltd are in NSE-NIFTY Small Cap Index 250.

Two sets of Financial Statements have been collected for all the select companies; the first is Ind AS Financial Statements and other is IGAAP Financial Statements in the first year of Ind AS adoption. Information on the adjustments made to the pre-Ind AS year figures are extracted from the Ind AS /IGAAP reconciliations. Ind AS 1 requires comparatives to be restated and reconciled.

VI. METHODOLOGY
The study is exploratory and empirical in nature. For the exploratory part relevant data and information have been collected from published literature like books, journals, articles, reports; regulatory rules formulated by authoritative bodies; news and feature articles published in financial dailies, finance-based magazines and periodicals.

Gray’s Comparability Index (GCI) is applied to the key elements of financial statements such as assets, liabilities, equities and profit prepared under IGAAP and Ind As. This is an Index which was proposed by Gray in 1980 to quantify the impact of different accounting practices by means of Conservatism Index.

The following formulae are used.

The Index is calculated as under:

Total Comparability Index of Non-Current Assets (NCA) = 1− \( \frac{\text{Total NCA (Ind AS)} - \text{Total NCA (IGAAP)}}{\text{Total NCA (Ind AS)}} \)

Total Comparability Index of Current Assets (CA) = 1− \( \frac{\text{Total CA (Ind AS)} - \text{Total CA (IGAAP)}}{\text{Total CA (Ind AS)}} \)

Total Comparability Index of Total Assets = 1− \( \frac{\text{Total Assets (Ind AS)} - \text{Total Assets (IGAAP)}}{\text{Total Assets (Ind AS)}} \)

Total Comparability Index of Non-Current Liabilities (NCL) = 1− \( \frac{\text{Total NCL (Ind AS)} - \text{Total NCL (IGAAP)}}{\text{Total NCL (Ind AS)}} \)

Total Comparability Index of Current Liabilities (CL) = 1− \( \frac{\text{Total CL (Ind AS)} - \text{Total CL (IGAAP)}}{\text{Total CL (Ind AS)}} \)

Total Comparability Index of Total Equity and Liabilities = 1− \( \frac{\text{Total Equity and Liabilities (Ind AS)} - \text{Total Equity and Liabilities (IGAAP)}}{\text{Total Equity and Liabilities (Ind AS)}} \)

Total Comparability Index of Total Income = 1− \( \frac{\text{Total Income (Ind AS)} - \text{Total Income (IGAAP)}}{\text{Total Income (Ind AS)}} \)

Total Comparability Index of Total Expenses = 1− \( \frac{\text{Total Expenses (Ind AS)} - \text{Total Expenses (IGAAP)}}{\text{Total Expenses (Ind AS)}} \)

Total Comparability Index of Profit before tax (PBT) = 1− \( \frac{\text{PBT (Ind AS)} - \text{PBT (IGAAP)}}{\text{PBT (Ind AS)}} \)

VII. ANALYSIS AND FINDINGS
This paper examined the quantitative changes in financial reporting due to the changes in accounting standard. Seven listed Indian companies belong to healthcare sector selected. Prior to financial year starting from 1st April, 2017, companies prepared their financial report in compliance with the Indian GAAP (IGAAP). The financial year starting from 1st April, 2017 and onwards all the listed Indian companies having net worth of Rs. 250 crore or more need to prepare their financial report under the Indian Accounting Standards (Ind AS). So, the financial reports for the financial year ending on 31st March, 2017 are available under both IGAAP and Ind AS (since the financial year ending on 31st March, 2018 requires the previous year’s figures for comparison purposes, the figures as on 31st March, 2017 need to be restated under Ind AS). The figures in the Balance Sheet and the Profit and Loss statements have been completely drawn from the annual reports of the company. All figures are related to the period ending 31st March 2017.

The benchmark used in the study is Ind AS for examining the accounting impact on the elements of the statements of financial positions from the Indian GAAP to Ind AS. The Total Non-Current assets, total current assets, total assets, total equities, Total Non-Current Liabilities, Total Current Liabilities, Total Equity and Liabilities, Total Income, Total Expenses, Profit before tax reported under Ind AS are taken as denominators in order to assess the impact of Ind AS on Indian financial statements. The neutral value of the index is one, implies that there is no quantitative change/impact (increase or decrease) situation on the Indian GAAP by Ind AS. An index that is greater than one implies that the assets, liabilities, equity, income, expenses and profit are higher under IGAAP than what were reported under Ind AS. Conversely, an index that is less than one suggests that the assets, liabilities, equity, income, expenses and profit are lower.
under IGAAP than that what were reported under Ind AS. But, this index does not show whether the difference obtained is statistically significant or not.

For the interpretation of results Gray (1980) suggests, in terms of a scale of conservatism that:

Conservatism (Ind AS are more prudent than the former IGAAP): IC > 1.05;

Neutrality (Ind AS and the former IGAAP lead to very close figures): 0.95 < IC < 1.05.

Optimism (Ind AS figure are higher than former IGAAP figures): IC < 0.95.

### Table 2: Company wise Gray’s Comparability Index (GCI)

<table>
<thead>
<tr>
<th>Selected Sample</th>
<th>Total NCA</th>
<th>Total CA</th>
<th>Total Assets</th>
<th>Total NCL</th>
<th>Total CL</th>
<th>Total Equity &amp; Liabilities</th>
<th>Total Income</th>
<th>Total Expenses</th>
<th>Profit before tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albert David Ltd</td>
<td>0.7112</td>
<td>0.9801</td>
<td>0.8661</td>
<td>0.9921</td>
<td>0.9566</td>
<td>0.8661</td>
<td>0.9825</td>
<td>1.0052</td>
<td>0.7434</td>
</tr>
<tr>
<td>Anuh Pharma Ltd</td>
<td>0.9534</td>
<td>1.0703</td>
<td>1.0389</td>
<td>0.9999</td>
<td>1.2351</td>
<td>1.0389</td>
<td>0.9385</td>
<td>0.9424</td>
<td>0.9103</td>
</tr>
<tr>
<td>Caplin Point Laboratories Ltd</td>
<td>0.9869</td>
<td>1.0164</td>
<td>0.9996</td>
<td>1.0211</td>
<td>0.9983</td>
<td>1.0003</td>
<td>1.0182</td>
<td>1.0041</td>
<td>0.9910</td>
</tr>
<tr>
<td>Coral Laboratories Ltd</td>
<td>0.5687</td>
<td>1.1787</td>
<td>0.9114</td>
<td>0.9850</td>
<td>1.7103</td>
<td>0.9114</td>
<td>0.9496</td>
<td>0.9327</td>
<td>0.9999</td>
</tr>
<tr>
<td>Jenburkt Pharmaceuticals Ltd</td>
<td>0.9409</td>
<td>0.9993</td>
<td>0.9897</td>
<td>1.1016</td>
<td>0.9796</td>
<td>0.9897</td>
<td>0.9982</td>
<td>0.9997</td>
<td>0.9979</td>
</tr>
<tr>
<td>Marksans Pharma Ltd</td>
<td>1.0008</td>
<td>0.9995</td>
<td>1.0003</td>
<td>0.0556</td>
<td>1.0490</td>
<td>1.0003</td>
<td>0.9994</td>
<td>0.9964</td>
<td>1.0528</td>
</tr>
<tr>
<td>RPG Lifescience Ltd</td>
<td>0.9914</td>
<td>1.0068</td>
<td>0.9974</td>
<td>1.1099</td>
<td>0.8726</td>
<td>0.9974</td>
<td>0.9921</td>
<td>0.9891</td>
<td>1.5598</td>
</tr>
</tbody>
</table>

Source: compiled by author

From the above table of Gray’s comparability Index, it has been found that there is no significant quantitative change in total current assets and equity since the GCI score for all the companies are close to 1. We have also found that except the GCI of total non-current assets of Albert David Ltd and Coral Laboratories Ltd all the other companies GCI of total non-current assets shows no significant change under IGAAP and Ind AS. It is due to fair value based valuation of the “Property, Plant and Equipment” under Ind AS. At the time of examining the difference under the head non-current liabilities we have identified a few reasons e.g. accounting for deferred taxes under IGAAP is fundamentally very different compare to Ind AS, discounting on provision is not permitted in Ind AS, contingent asset is not disclosed in the financial statement in Ind AS, reclassification of items etc.

**Impact on total income:** It has been found from the GCI of total income that there is no such significant difference between IGAAP and Ind AS. GCI of total income and profit before tax shown in the chart 1 & 2 given below:

![Chart 1: GCI on Total Income](image1)

Source: Compiled by author

![Chart 2: GCI on PBT](image2)
It has been found from the chart 2 and table 2 that except the GCI of profit before tax (PBT) of RPG Lifescience Ltd all the other companies GCI of PBT indicate no significant change in IGAAP and Ind AS.

It has been found that there is no such significant quantitative change in Profit and Loss Statements’ items like total income, total expenses, and profit before tax under both IGAAP and Ind AS since the GCI for all the items for all the companies are very close to zero.

VIII. CONCLUSION

There is no such significant quantitative change in Profit and Loss Statements’ items like total income, total expenses, and profit before tax due to changes in accounting reporting practices from IGAAP to converged with IFRS i.e. Ind AS.

It is found from the study that there is no significant quantitative change in total current assets; total non-current assets and equity from IGAAP based reporting to Ind AS based reporting except a few situations due to some reclassification provisions. Accounting treatment for taxes, discounting on provision, contingent asset may be the reason for the difference under the head non-current liabilities from IGAAP reporting to Ind AS.

It is found that the variation in total assets and liabilities is because of the reclassification among equity and liability and also because of the difference in the concept of revenue recognition.

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