

Ind As & Igaap for Defining Solvency Based Indicators - A Study of Select it Companies in India

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Abstract: As a global reporting language, India is keen to adopt International Financial Reporting Standards (IFRS) and make it mandatory for its own domestic companies. As per the announcement by MCA and NACAS it becomes mandatory in India for the Indian Companies. When a new accounting standard is adopted by a country for reporting financial statement of its own domestic companies, it may have an impact on the quantitative features of financial statement especially for the asset portion of the financial report.

Keywords: IFRS, IGAAP, IND AS, Independent t test, Indian IT Companies.

INTRODUCTION

In ancient times traders and their groups were obliged to satisfy only a small Community of investors among their family, associates, and acquaintances about the financial property of their enterprises. Business entities are legally obliged to file financial statements not only for their creditors and investors, but also for tax and other government authorities, and millions of investors are putting their money into thousands of businesses around the world these days.

The main purpose of accounting standards is to ensure that the approach to accounting does not vary and to standardize the presentation of accounts.

The basic standards of accounting practiced globally are practised by businesses, such that their financial statements, which record different aspects of their results, can be contrasted with those of other businesses.

Globally, under the 'Generally Accepted Accounting Principles' (GAAP), International Financial Reporting Standards (IFRS), and other common rules and procedures practised around the world used by businesses to file their financial statements.

When every organisation has a single accounting standard for reporting financial statements, It develops its enterprises for entry to global markets outside the country of origin. Based on an International Financial Reporting Standard was established to address this need. They need to change their accounting system and switch from local GAAP to IFRS by preparing financial comparative details between their previous GAAP and current IFRS.

LITERATURE REVIEW

This section provides a succinct overview of existing research that investigate how any accounting standard give their impact on solvency position of any corporate organization.

Aga & Akta (2007) have done a research on first time adaptation of IFRS and its effect on financial ratio of Turkish listed firm. They considered 147 companies and collected data from their financial statement and the hypothesis proving pair t test applied. They have found only the improvement in the cash ratio and turnover ratio of assets is statistically important.

Callao et.al (2007) have done a research on effect of IFRS adaptation on the comparability and relevancy of financial reporting in 35 Spanish firms. They have t test and t test introduced to prove the theory, Wilcoxon signed rank tests. They reveal that IFRS has a substantial Effect on six of the company's financial ratios and interim details.

Fulbier et.al (2009) unveils the effect of IFRS on 90 companies in Germany. The aim of this Research aims to find out the impact of operating lease accounting treatments on financial leases. Place of the statement and main financial ratio. The conclusion of their article is that the substance Capitalization has a major impact on most businesses, especially fashion and retail. Industry and total percentages.

Lantto & Sahlstrom (2009) have conducted a study on the impact of IFRS adaptation on key financial ratio in Finland. The financial figures of 91 companies and 91 companies were analysed. It was found that most of the items in the financial statements are substantially different. The outcome reveals that margin of operating profit, return on equity, return on the capital invested and gearing Ratios have improved and there is a substantial improvement in

the P / E ratio, equity ratio and solvency ratios. After adopting IFRS, reduced.

Tsalavoutas & Erans (2010) have conducted a study on 238 listed Greek companies from 2005 and 2006. The aim of the research is to discover the effect of the transition to IFRS on Statement of Finance. They have measured ratios and have taken some utter financial into account .They found that adaptation of IFRS has a big effect on financial firms Place, especially on the ratios of gearing and solvency.

Markelevich et.al (2010) have conducted a research on the impact of conversion from national accounting standard to IFRS in Israel. 536 organisations were considered by them. By calculating various types of ratios from different industries in Israel to find out the Repercussion. They conclude that accounting norm conversion has had a substantial effect on the true Eastern market.

Beke (2011) has conducted a study on IFRS adaptation on 65 IFRS adopted firm and 260 local firms on Hungarian market. The aim of the analysis is to measure the difference between local law and global norms. He has introduced logistic regression for that. Based on various ratios the outcome indicates that adaptation to IFRS has had a large effect on the revenue ratio, solvency and profitability ratios and the latest norm render the more clear and user-friendly financial statement.

Ahmed & Alam (2012) has done a research on the effect of IFRS adaptation on financial statement in Australia. This

paper aims to examine the developments in accounting Surplus, equity, liabilities and cash. They discovered a distinction between two sets of Accounting standard, reduced average surplus or deficit, equity assets and liabilities but no significant improvements have been reported in the overall financial situation.

Shi-hsing Weu (2012) has conducted a research on the impact of IFRS convergence on effectiveness of accounting information for share valuation in China. He discovered that IFRS was Convergence improves the value of balance sheet products and increases company-wide variability. However, there is no difference in the exploratory capacity of accounting importance.

Da Silva Macedo et.al (2013) has made an investigation to find out the impact ofConvergence to IFRS on the informational content of accounting in Brazil. They've got Calculated with different ratios and used K-S test for normality checking and Wilcoxon sign Check for hypothesis testing. The outcome shows the turnover of assets, gross margin, Cash flow running over total assets and cash flow running over the equity of the stock holder are while using the data from the financial statement based on IFRS, lower. On the other side, for example, The explanatory strength of these ratios has been strengthened by book value per share and EPS.

OBJECTIVES

To find out the impact of IND AS on Indian IT Companies for disclosing solvency position.

RESEARCH METHODOLOGY

4.1 Sample Design:

For attaining the different objectives based on secondary data, the researcher focused on MCA announcement regarding IFRS convergence in India early 2010. In comparison to other sectors,(Infrastructure, Tele- communication, Pharmaceuticals), the Indian IT sector is leading in voluntary adoption of IFRS. Indian IT companies such as Infosys, Wipro, and TCS had already begun preparing their financial statements in compliance with the International Financial Reporting Standards (IFRS) as required by the US Stock Exchange. To study the impact of IND AS adoption on financial indicators, the researcher considered top fifteen (15) Indian IT companies as per their sales volume 2016-17.

4.2 Sample Size:

As per the report, disclosed by “**Money control 2016-17**”, Top fifteen Indian IT companies as per their sales volume and Net worth are:

TABLE-1. LIST OF COMPANIES

SL.NO	NAME OF COMPANY	NET SALES(RS.CRORE)	NET WORTH(RS.CRORE)
01	TCS	92693	7905.7
02	INFOSYS	59289	6807.9
03	WIPRO	45639.6	4931.7
04	HCL	19318.32	2645.733
05	TECH MAHINDRA LTD	23165.4	1903.79
06	MPHASIS	3018.55	4750
07	TRIGEN TECH	1683.23	1880
08	HEXAWARE	1524.1	1559.33
09	NIIT	366.28	1248.76
10	L&T INFOTECH	6128.9	4092.15
11	MOSCHIP TECH	166.88	458.04
12	NEWGEN SOFTWARE	3831.14	2967.55

13	HINDUJA GLOBAL SERVICE LTD	1624.8226	1032.366
14	PERSISTENT SYSTEM	1732.96	1841.61
15	ROLTA INDIA LTD	1454.91	6547.68

4.3 Source Of data: Secondary data have been collected from the company’s annual report from 2015-16 to 2016-17.

4.4 Period of Study: Initially MCA announced the date of convergence for Indian companies as 1st April 2011. For that reason, in order to compare IND AS and IGAAP adopted by Indian IT companies, the researcher analysed the data of those Companies Annual Report from 2015-16 to 2016-17. That is pre adoption and post adoption period of IND AS.

4.5 Data Analysis Technique: When data on different quantitative factors were collected, there were two sets of information, one for IGAAP and the other for IND AS for two years (2015-16 and 2016-17). To test the effect of IND AS, paired t test is being used for testing hypotheses at 5% level of significance, but before that, Gray Conservative Index method has been applied to know the conservativeness of all the financial positions. If the index value lies in between 0.95 and 1.05, it means that there is no significant impact of new accounting standard on financial position.

TABLE-2. FINANCIAL INDICATORS

AREA	RATIO	FORMULA	LITERATURE
SOLVENCY	DEBT EQUITY RATIO	LONG TERM DEBT / SHAREHOLDERS’ FUND	Markelevich et.al(2010)
	CAPITAL GEARING RATIO	FIXED INTEREST BEARING CAPITAL / EQUITY SHAREHOLDERS; FUND.	Beke (2011)

HYPOTHESIS:

The study of the relationship between the two types of accounting standards was strengthened when a country freely adopted a new accounting standard and prepared their financial statement at the same time. Pazarskis, Alexandrakis, Notopoulos & Kydros (2011) examined the possible impact of the adoption of IFRS by Greek companies of the information technology sector and found that there was a statistically significant difference only at margin ratios and leverage ratio. Blanchette, Racicot, & Girard (2011) in their research showed that although there are differences in means and volatility in most of the financial ratios of companies, but these differences were not statistically significant in most of the cases.

Hypotheses I:

H0: There is no change in solvency ratios after adoption of IND AS voluntarily by Indian IT companies.
H1: There is a change in solvency ratios after adoption of IND AS voluntarily by Indian IT companies.

5. DATA ANALYSIS

TABLE-3. SOLVENCY INDICATOR AS PER IND AS

NAME OF COMPANY	DEBT EQUITY RATIO	CAPITAL GEARING RATIO	INDICATOR
TCS	0.001	0.001	0.001
INFOSYS	0.001	0.001	0.001
WIPRO	0.037	0.038	0.037
HCL	0.026	0.026	0.026
TECH MAHINDRA LTD.	0.490	0.490	0.490
MPHASIS	0.045	0.045	0.045
TRIGYN TECH	0.007	0.007	0.007
HEXAWARE	0.017	0.017	0.017
NIIT	0.136	0.136	0.136
L&T INFOTECH.LTD	0.022	0.022	0.022
MOSCHIP TECH	0.033	0.033	0.033
NEWGEN SOFTWARE	0.109	0.109	0.109
HINDUJA GLOBAL SERVICE LTD.	0.499	0.499	0.499
PERSISTENT SYSTEM	0.009	0.009	0.009
ROLTA INDIA LTD.	2.328	2.328	2.328
MEAN	0.251	0.251	0.251
STANDARD DEVIATION	0.597	0.597	0.597

The above define variable are also used to build a financial matrix for H1 to bring out solvency indicator under IGAAP based financial statement.

TABLE-4. SOLVENCY INDICATOR AS PER IGAAP

NAME OF COMPANY	DEBT EQUITY RATIO	CAPITAL GEARING RATIO	INDICATOR
TCS	0.001	0.001	0.001
INFOSYS	0.001	0.001	0.001
WIPRO	0.038	0.039	0.039
HCL	0.027	0.027	0.027
TECH MAHINDRA LTD.	0.052	0.052	0.052
MPHASIS	0.052	0.052	0.052
TRIGYN TECH	0.002	0.002	0.002
HEXAWARE	0.029	0.029	0.029
NIIT	0.055	0.055	0.055
L&T INFOTECH.LTD	0.127	0.127	0.127
MOSCHIP TECH	0.033	0.033	0.033
NEWGEN SOFTWARE	0.109	0.109	0.109
HINDUJA GLOBAL SERVICE LTD.	0.484	0.484	0.484
PERSISTENT SYSTEM	0.009	0.009	0.009
ROLTA INDIA LTD.	2.008	2.008	4.017
MEAN	0.202	0.202	0.336
STANDARD DEVIATION	0.513	0.513	1.025

TABLE-5. GRAY INDEX VALUE FOR SOLVENCY INDICATOR

RATIO	IND AS	IGAAP	INDEX VALUE OVER ALL
DEBT EQUITY RATIO	0.251	0.202	0.194
CAPITAL GEARING RATIO	0.251	0.202	0.194

TABLE-6. TEST STATISTICS FOR SOLVENCY INDICATOR

RATIO	ACCOUNTING STANDARD	MEAN	STANDARD DEVIATION	p VALUE
DEBT EQUITY RATIO	IND AS	0.251	0.597	0.163
	IGAAP	0.202	0.513	
CAPITAL GEARING RATIO	IND AS	0.251	0.597	0.163
	IGAAP	0.202	0.513	
OVERALL	IND AS	0.251	0.597	0.375
	IGAAP	0.336	1.025	
Decision		<i>H₀ Accepted</i>		

The above table shows that there is no statistical evidence at 5% level of significance to prove that overall solvency indicator has changed under convergence of IND AS compare to IGAAP. Therefore even though differences can be observed in absolute term, there is no enough evidence to prove the same statistically.

CONCLUSION

The outcomes of the data analysis and interpretation discussed are fascinating in terms of the impact of IND AS on Indian IT companies. Each financial indicator of Indian IT companies had positive and negative differences, some stronger, some lesser, and this IND AS convergence brought forth certain good effects for investors. The changes in financial ratios were calculated using IND AS and IGAAP and were expressed in absolute numbers or magnitude. This shows that the changes in accounting numbers and financial ratios could be due to the introduction of tighter accounting regulations under IFRS. However, there was no statistical evidence at 5% level of significance to prove that any of the financial position improved/increased under IND AS adoption by Indian IT companies.

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