An Analytical Study of Financial Statements Prepared Under IFRS and IGAAP with Special Reference to Risk Perception of Users of Financial Statement

Sudheesh. K
Research Scholar, Barathiyar University Coimbatore, India

Abstract: Financial statements are the only window available to the outside authorities to measure the internal affairs of an entity. Financial statements provide valuable information regarding the financial position and operational efficiency of an entity. The important financial statements are the ‘Balance Sheet’, ‘Profit and Loss Account’ and ‘Cash Flow Statement’. The primary objectives of these statements are to provide financial information to inside and outside authorities to take sound economic decisions. Today globalization and liberalization are not only a concept, but, it is truth that reduces the world as a small highly dynamic economic village. It facilitates the cross-border free flow of goods, services, technologies and capital. The globalization and liberalization policies of governments accelerated the pace of the development of financial globalization and multinational corporations. This necessitated the need for a single set of high quality accounting standards for harmonizing the diverse accounting policies and practices prevailing in the world. That leads to the development of IFRS and IFRS Convergence. In India the implementation process of IFRS Converged Indian Accounting Standards (Ind AS) will be completed by April 2017. Hence in this study the analysis gives a major focus on whether the financial statements prepared under IFRS and IGAAP has a significant differences in the risk perception of users of these statements.

Keywords: Financial Statements, IFRS, IGAAP, Ind AS

1. Introduction

Before the implementation of Ind AS, Financial Statements in India are prepared on the basis of IGAAP and the Accounting Standards issued by the Indian Accounting Standard Board. In July 2014, the Finance Minister of India Shri. ArunJaitley, in his Union Budget speech announced the urgency to converge the existing Accounting Standards with IFRS. Moving this direction the Ministry of Corporate Affairs issued the Companies (Ind AS) Rule 2015 vide notification dated February 16, 2015 covering the revised roadmap of implementation of Ind AS for companies other than banking Companies, Insurance Companies and NBFC on voluntary basis from 1st April 2015 and mandatorily from 1st April 2016. With respect to IFRS there are two options before a country. One is to adopt IFRS as it is, this is known as IFRS adoption. Second is to converge a country’s accounting standards with IFRS, that is, to modify the IFRS slightly according to the rules laws and business environment prevailing in a country, it is termed as IFRS Convergence. India has chosen IFRS Convergence.

In India certain well established reputed companies like Dabar India Ltd, Infosys Ltd, Rolta India Ltd from 2007 accounting period onwards and Dr. Reddy’s Laboratories Ltd from 2013 accounting period onwards are adopted IFRS voluntarily and the published their annual reports prepared under IFRS and IGGAP. In this study the researcher analyzing the financial statements of Dr. Reddy’s Laboratories Ltd prepared under the both methods to identify the differences on the user’s point of view as regards the risk perception. The data used for this analysis is the annual reports of the company. Accounting Ratios are used to analyze the risk perception of users Dr. Reddy’s Laboratories Ltd was established in 1984 by Dr. Kallam Anji Reddy. The primary objective is to provide pharmaceutical products at affordable cost. Its Global Office is at Hyderabad, Telangana, India. Now it has 52 subsidiary companies and Two Joint Ventures in Twenty countries in the word.

2. Review of Literature

Lantto and Sahlstrom (2009) in their study examine the impact of IFRS adoption on key financial ratios using Finland as a sample country. The result clearly shows that the adoption of IFRS changes the magnitude of key accounting ratios.

Another study using the accounting ratio based was conducted by Padtrcova and Vochozka (2011) the study revealed that the financial statement prepared under countries accounting standard shows a better financial health than it shown by financial statements drawn under IFRS. Moreover several studies revealed empirical evidence suggesting that IFRS is of higher quality than that of local GAAP. Barvot (2005) assess the value relevance of earnings produced under USA and German GAAP relative to that under IFRS. The study finds that USGAP based and IFRS based earnings are of higher value relevance than German based earnings.

3. Statement of the Problem

The primary objective of Financial Statements is to provide valuable information to the users. The shareholders, creditors, lenders, customers and all other stakeholders are judging the financial performance of an entity on the basis of the financial statements. Shareholders are interested to know the financial health and profitability of the entity; creditors...
are basically secondary data comprises of the annual report make certain evaluation of the study. The data for the study facts and information already available and analyze these to
This study is an analytical re
7.
1st April 2015 prepared under IFRS and IGAAP are used.
4. Definitions
1) IFRS (International Financial Reporting Standards) IFRS are the accounting standards developed and issued by International Accounting Standard Board (IASB).
IFRS Includes:-
• IFRS issued from 2001 onwards by IASB
• IAS issued by IASC
• Interpretations issued by IFRIC
• Interpretations issued by SIC
2) IGAAP (Indian Generally Accepted Accounting Principles) IGAAP are the accounting policies and practices existing in India based on Indian Accounting Standards issued by ICAI and notified by Ministry of Corporate Affairs
• Ratio Analysis
Ratio analysis is one of the most powerful tools used of Financial Analysis. It is process of establishing and interpreting various accounting ratios.
5. Objectives of the Study
The important objectives of the study are as follows:-
• To study the differences in the liquidity perceptions of creditors
• To study the differences in the solvency perceptions of creditors
• To study the differences in the profitability perceptions of creditors
6. Scope of the study
The study proposed to find out if there are any significant differences on the point of view of users regarding the risk perception of their investment in an entity. Through this study the researcher is proposed to identify that, if there is any significant difference on the risk perception of shareholders, creditors, lenders and other stakeholders while scrutinizing the financial statements prepared under IFRS and IGAAP. For this purpose the financial statements of Dr. Reddy’s Laboratories Ltd for the accounting period ending 1st April 2015 prepared under IFRS and IGAAP are used.
7. Research Methodology
This study is an analytical research. The research has to use facts and information already available and analyze these to make certain evaluation of the study. The data for the study are basically secondary data comprises of the annual report of Dr. Reddy’s Laboratories Limited, that is the Profit and Loss Account and Balance Sheet for the accounting year ended 31st March 2015. Analysis is made using ratio analysis.
7.1 Sample Design
The population of the study consist of companies adopted IFRS voluntarily in India. Out of the companies adopted IFRS voluntarily Dr. Reddy’s laboratories Ltd is selected as sample for this study on simple random method
7.2. Data Analysis and Findings
Ratio analysis is one of the powerful tools of financial analysis. It facilitates the easy identification of the liquidity, solvency and profitability position of an entity. Ratios analysis facilitates the establishment meaningful conclusions regarding the financial performance of an entity.
7.2.1 Current Ratio
Current ratio is also known as liquidity ratio and working capital ratio. It is the primary measure of liquidity of an entity. These ratios exhibit the ability of an entity to meet its short term obligations. The suppliers and creditors are interested to measure current ratio to identify the promptness of their receipts. Current ratio is determined by using current assets and current liabilities.
7.2.2 Quick Ratio
Quick ratio is also known as Acid Test Ratio it measures the immediate liquidity of an entity, that is, without considering the inventory included in the current assets. It measures the ability of an entity to meet its short term obligations without relaying future sales. Quick ratio is determined by dividing quick assets and quick liabilities.
7.2.3 Debt Equity Ratio
Debt equity ratio is the relationship between debt and equity of an entity. It exhibit long term solvency position of an entity. This is very significant in the point of view of lenders and financial institutions providing long term financial assistance to the entity
7.2.4 Interest Coverage Ratio
Interest coverage ratio measures the ability of an entity to meet its annual interest obligations promptly. It measures how many times the interest obligation of an entity is covered by the profit earned by the entity. It is determined by dividing the profit before tax and interest and interest.
7.2.5 Fixed Assets Turnover Ratio
Fixed assets turnover ratio discloses how efficiently the fixed assets are utilized by the entity for generating revenue. This ratio establishes the relationship between sales and fixed assets. Fixed assets turnover ratio is calculated by dividing net sales by fixed assets.
7.2.6 Net Profit Ratio
It is the relationship between net profit and net sales. It measures the percentage of net profit margin on net sales. The profit margin ratio directly measure what percentage of

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sales is made up of net income. In other words, it measures how much profit are produced at a given level of sales.

### 7.2.7 Earnings Per Share

This ratio indicates the profit available to equity shareholders per share basis. It is calculated by dividing earnings available to equity shareholders by the number of equity shares of an entity.

<p>| Table 1: Different Ratios of Dr. Reddy's laboratories Ltd |
|-----------------|-----------------|-----------------|</p>
<table>
<thead>
<tr>
<th>S. No</th>
<th>Particulars</th>
<th>IFRS Based</th>
<th>IGAAP Based</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Current Ratio</td>
<td>1.87 Times</td>
<td>1.74 Times</td>
<td>0.13</td>
</tr>
<tr>
<td>2</td>
<td>Quick Ratio</td>
<td>1.47 Times</td>
<td>1.36 Times</td>
<td>0.11</td>
</tr>
<tr>
<td>3</td>
<td>Debt Equity Ratio</td>
<td>0.17 Times</td>
<td>0.20 Times</td>
<td>0.03</td>
</tr>
<tr>
<td>4</td>
<td>Interest Coverage Ratio</td>
<td>26.79 Times</td>
<td>27.80 Times</td>
<td>1.01</td>
</tr>
<tr>
<td>5</td>
<td>Fixed Assets Turnover Ratio</td>
<td>0.51 Times</td>
<td>0.46 Times</td>
<td>0.05</td>
</tr>
<tr>
<td>6</td>
<td>Net Profit Ratio</td>
<td>14.97%</td>
<td>15.89%</td>
<td>0.92</td>
</tr>
<tr>
<td>7</td>
<td>Earnings Per Share</td>
<td>Rs. 130.22</td>
<td>Rs. 137.18</td>
<td>6.96</td>
</tr>
</tbody>
</table>

Sources: Annual report 2013-14

### 8. Findings

- The current ratio of the entity as per IFRS based financial statements is 1.87 times, but, the same in the case of IGAAP 1.74 times, here it is witnessed that IFRS based statement shows 0.13 times better liquidity position than IGAAP.
- In the case of quick ratio IFRS based financial statement reveals a better position than that of IGAAP.
- The debt equity ratio of the entity shows an ignorable difference that is only 0.03 times the case of IFRS and IGAAP financial statements.
- Interest coverage ratio as per ratio IFRS based financial statement is 26.79 times but the same in the case of IGAAP based statement is 27.80 times. It shows a difference of 1.01 times.
- The fixed assets turnover ratio of the entity shows an ignorable difference that is only 0.05 times the case of IFRS and IGAAP financial statements.
- By scrutinizing the net profit ratio it shows a difference of 0.92 times while comparing the IFRS based financial statements and IGAAP based financial statements.
- A significant difference of Rs 6.96 can be identifiable in the case of earnings per share while comparing the IFRS based financial statements and IGAAP based financial statements.

### 9. Conclusion

From the above analysis and the analysis based findings it is noticed that the Liquidity ratios, namely current ratio and quick ratio calculated on the IFRS based financial statements indicate an ignorable higher ratio than that of the ratio calculated by using IGAAP based financial statements. The same result is also witnessed in the case of debt equity ratio and fixed assets turnover ratio. But in the case of EPS (earnings per share), interest coverage ratio and net profit ratio revealed a better financial health in the case of IGAAP financial statements as compared to the financial statements based on IFRS. Hence we can conclude that financial statements prepared on the basis of IGAAP provide better healthier conclusions about the financial position and operational efficiency of the entity.

### 10. Limitation of the Study

1) The study is short term period of one year only that is the annual report for 2013-14
2) For this study sample size is only one company
3) The main constraint of this study is considered as the data used is secondary data.

### References


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