INTERNATIONAL FINANCIAL REPORTING STANDARDS: A WAY FOR GLOBAL CONSISTENCY

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ABSTRACT

The reverberations of Wall Street had to be felt across the global banking system. Last September, the world economy seemed to be hurtling down in a way that had initially raised the spectre of the Great Depression in America of the late 1920s. This is based largely on the performance of stock markets which are supposed to reflect future trends in the real economy. However, such knowledge embedded in the markets can be imperfect, as we have learnt by now. In some ways, the global financial crisis and its fallout are forcing economic agents to acquire new knowledge in regard to what might happen in the future. It was difficult to explain rationally why the stock markets were furiously running up even as company balance sheets were still bleeding. A few years ago, International Financial Reporting Standards (IFRS) were a distant possibility. Today, the reality is far different. We are in a dramatic shift that is fast making IFRS the most widely accepted accounting model in the world. As the business environment becomes increasingly global and companies routinely list on stock exchanges in many countries, the need for consistent worldwide reporting standards intensifies. IFRS clearly addresses this issue; its goal is to create comparable, reliable, and transparent financial statements that will facilitate greater cross-border capital raising, trade and better corporate governance practices. Thus acceptance of IFRS is gaining momentum across the globe. IFRS transition program for any organization will have multi – dimensional effect because of differences which exist between IFRS and Local GAAPs. The objectives of the paper is to highlight the nature of such differences with examples along with analysing the provisions of IFRS, comparative analysis of IFRS with Indian GAAP system, benefits, and major issues in first time adoption of IFRS in Indian companies with the help of case study of Indian corporate.

Keywords: Financial Crisis, International Financial Reporting Standards, Indian GAAP, Convergence, Globalization, Foreign Investment, Transition Period

1. INTRODUCTION

The reverberations of Wall Street had to be felt across the global banking system. Last September, the world economy seemed to be hurtling down in a way that had initially raised the specter of the Great Depression in America of the late 1920s. This is based largely on the performance of stock markets which are supposed to reflect future trends in the real economy. However, such knowledge embedded in the markets can be imperfect, as we have learnt by now. In some ways, the global financial crisis and its fallout are forcing economic agents to acquire new knowledge in regard to what might happen in the future. It was difficult to explain rationally why the stock markets were furiously running up even as company balance sheets were still bleeding. A few years ago, International Financial Reporting Standards (IFRS) were a distant possibility. Today, the reality is far different. We are in a dramatic shift that is fast making IFRS the most widely accepted accounting model in the world. As the business environment becomes increasingly global and companies routinely list on stock exchanges in many countries, the need for consistent worldwide reporting standards intensifies. IFRS clearly addresses this issue; its goal is to create comparable, reliable, and transparent financial statements that will facilitate greater cross-border capital raising, trade and better corporate governance practices. Thus acceptance of IFRS is gaining momentum across the globe. IFRS transition program for any organization will have multi – dimensional effect because of differences which exist between IFRS and Local GAAPs.

2. LITERATURE REVIEW

Foreign companies engaged in foreign direct investment are normally exposed to business environment and systems that are different from their home country. It is important that these foreign companies are aware of the country differences for the purpose of establishing or maintaining an efficient global operation. Accounting standards compliance and harmonization constitute an important issue as a company can find it difficult to follow different accounting standards for the same business structure in different countries. Differences in accounting standards are of importance because they can create additional cost in financial reporting if they are not managed well. It can also present a contrasting financial situation under different sets of accounting standard if care was not exercised in understanding their potential impact. For example, profit could be transformed into losses under different accounting standards used in Germany and the US (Vishwanathan, 2005). There are several standard setting bodies and organizations that have been actively involved in the process of harmonization of accounting practices in the world. For example, the International Accounting Standards Committee (IASC) has worked for many years to develop a set of converged standards for use throughout the world (Tarca, 2005). The rationale behind these efforts is that heterogeneous accounting standards impede the functioning and integration of global capital markets and efficient allocation of resources (Shankaraiah and Rao, 2004; Goldberg et al., 2006). In addition, the diversity in standards would limit the transparency of financial statements, which is necessary for users of financial information (such as shareholders, lenders, creditors, and suppliers) to determine whether management has exercised sound corporate governance in regard to their investment, and for regulators to properly monitor corporate behaviour. It is therefore crucial to have a set of common accounting standards that ensure comparable and useful information are being provided to different users of financial statements. Nevertheless, there is still much to be accomplished in the harmonization of accounting practices by these standard setting bodies and organizations (Vishwanathan, 2005). Achieving harmonization in accounting standards and practices among countries in the world constitutes a formidable task. It has been identified that different accounting patterns exist because of environmental differences (Gray, 1988; Goldberg et al., 2006). Differences in accounting patterns are inevitable due to different cultural, economic, legal, and institutional arrangements that support financial reporting. Many studies had been undertaken worldwide over the past three decades by the financial regulators which highlighted the importance of international financial reporting standards. These studies mainly looked into the needs of such reporting standards and prepared the road map for pursuing the same. Among them important studies quoted in varied books, journals and deliberations include, International GAAP® 2009 by Ernst and Young published by Wiley, International Financial Reporting Standards (IFRSs) Taxmann Publications P Ltd, Dr. Ghosh T. P. (Jan 2010) "IFRSs Adoption in India: A Review of Regulatory and Accounting Issues", Journal of Company Secretariat, Singh Balwinder and Raman A. N. (9^{th} Sep2009) "Implications of IFRS on Historical Cost Accounting", The Management Accountant, Journal of ICWAI, Vol 44, Journey to IFRS, Confederation of Indian Industry, IFRS Summit (2009), Deloitte IFRS: Developing a Roadmap to Convergence, KPMG, (March 2008), and Concept paper on convergence with IFRSs in India ICAI (2007). Nearly all the studies highlighted the need of IFRS and how to move from country specific accounting standards to globally accepted reporting standards. In fact the above mentioned studies ignored the practical aspect, problems which a company might face while converging from country specific accounting standards to IFRS. There is very limited text which talked about implementation of the internationally recognized financial reporting standards i.e. IFRS. Therefore our study is based on to gauge the impact of adoption of IFRS and the problems a company face at the time of conversion period through case study of Wipro Limited.

3. IFRS: AN OVERVIEW

"There is a growing international consensus on the International Financial Reporting Standards as acceptable standards for assessment of the financial health of a company across the globe."

- Jitesh Khosla, Joint Secretary,
Ministry of Corporate Affairs, Government of India

Accounting has been an integral function of micro and macro institutions. As an efficient tool of financial assessment, accounting is used in both households and corporate business units. Propelled by the internationalization and globalization at an economic and organization level, the body of knowledge of accounting has expanded widely. An important area of research among both academicians and practitioners has been international accounting. Doupnik and Perera (2007) explain international accounting as a functional epistemology and an integration of two concepts of- International and accounting. They define 'international' at three levels. The first level is supranational accounting that focuses on the standards, rules and guidelines issued by supranational bodies such as the United Nations, the International Federation of Accounts among others. The second level relates to the standards, guidelines and rules followed by companies across the world. Finally, at the third level, intra country standards and rules are studied. The motives behind studying international accounting is the increasing footprint of the IFRS phenomenon in world and its expected arrival in Indian accounting and reporting context by 2011. International Financial Reporting Standards (IFRS) are Standards, Interpretations and the Framework for the Preparation and Presentation of Financial Statement, adopted by the International Accounting Standards Board (IASB). IFRS are set by the IASB. The process began by issuing International Accounting Standards since 1973. The underlying objective of both IFRS and IAS was to develop a globally agreed accounting framework. This framework can be applied or converged with the accounting standards, principles, rules of individual country's accounting standard. Extending the framework to either replace or converge local accounting standards with IFRS, offers the opportunity to harmonize the accounting and reporting aspects across the world.

3.1 What is IFRS?

A set of financial reporting standards issued by the International Accounting Standards Board is recognized under the brand name International Financial Reporting Standards (IFRSs). 'IFRS' is a trade mark of the International Accounting Standards Committee Foundation. IFRSs comprise of:

1. International Financial Reporting standards
2. International Accounting Standards and
3. Interpretations originated by the International Financial Reporting Interpretation Committee (IFRIC) and
4. Interpretation issued by the former Standing Interpretations Committee (SIC)

Presently there are eight IFRS, twenty-nine IASs, seventeen IFRIC interpretations and eleven SIC interpretations.

3.2 Historical Background of IFRS

Since the early 1970s, the International Accounting Standards Board (IASB) and its predecessor, the International Accounting Standards Committee, have worked to develop a single set of international standards, the IFRS. The world's capital markets ebb and flow continuously and participants in that marketplace must have access to financial information that faithfully reflects their economic performance, is consistent among companies around the globe, and is governed by a trusted and respected authority of corporate compliance. This massive international endeavor is one of unprecedented scale and complexity—one that is now bearing fruit, despite some minor setbacks. These setbacks have included, for example, the well-publicized amendments to International Accounting Standards (IAS) 39: Financial Instruments: Recognition and Measurement. Nevertheless, IFRS have gained acceptance and traction in all major regions of the world.

4. OBJECTIVE OF THE STUDY

The prime objective of the present work is to study the provision of IFRS, comparative analysis of Indian Accounting Standards and IFRS, impact and consequences due to IFRS adoption with the help of case study of Wipro Limited.

5. RESEARCH METHODOLOGY OF THE STUDY

Study Area This study has been completed by incorporating the provisions of IFRS adopted / to be adopted by the companies running business in India. We have taken few companies for the purpose of comparison of IGAAP with IFRS. ***Research Design*** This study is descriptive in nature. The study gives the details about the IFRS and IGAAP for the purpose of better understanding and analysis. We have not taken any hypotheses in the study because adoptions of IFRSs are in progress and it takes time to come in full and fledged manner. ***Data Collection*** We have used primary as well as secondary data for the purpose of this project. The main sources of secondary data are company's manual, annual general reports, journals, newspapers and concerned websites. Primary data has been collected through interview with the top management officials, chartered accountants involved in IFRS adoption. ***Data Analysis*** Comparative study and chart has been prepared for bird's eye view. Since the data has been analyzed and provided by the company itself, we have elaborated the reasons behind the differences and suggested tentative solutions towards better convergence of IFRS.

6. HARMONIZATION OF ACCOUNTING STANDARDS OF DIFFERENT COUNTRIES

Harmonization of accounting standards is important to analyze especially after the issues that arose in adoption of IFRS by EU member countries since 1st January, 2005. There are both supporters and critics of these initiatives that attempt to integrate accounting practices. A survey by Ernst and Young reveals that 79% of corporate India is looking forward to the IFRS convergence. However, a comprehensive due diligence of the repercussions of these initiatives needs to be conducted. Before we begin to explore the arguments for and against harmonization, it is important to understand the rationale that led to the development of harmonization efforts in accounting. Accounting diversity has posed several challenges and has been a hurdle in globalization. A major issue posed by accounting diversity is in preparation of consolidated accounting statements. A multi-national faces the challenge of effectively translating the financial statements of international subsidiaries without losing any valuable information. However, in practice, importance of some accounting items is diluted and reporting invariably is not exhaustive. This raises the issue of access to international capital markets. International listing generally necessitates the presentation and reporting of financial statements in accordance with the standards of that country. Diversity also causes issues of comparability of financial statements and in some cases the financial statements of companies in a few countries are of poor quality. This is especially true in economies that have insider ownership and lacks a matured public market for both equity and debt. These issues create the need for harmonization. Harmonization can be defined as the phenomenon of removing conflicts between various local accounting standards and at the same time offering a considerable degree of flexibility. However, many understand harmonization as uniformity in practices and standards which is an uphill task and nearly impossible to implement successfully. As evidenced by the case in European Union, harmonization of accounting standards is different from harmonizing accounting practice. The latter creates more impact than the former. Supporters of harmonization argue that this initiative removes all the obstacles posed by accounting diversity. They hail it as the cost-effective approach because it will eliminate the expenses of translation and increase ease of business manifold. On the other hand, critics of harmonization effort cite the political cost of eliminating the vast differences between countries. An example to illustrate this difference is IFRS is published in English and when translated to German, the meaning of certain important reporting concepts changes. Also, harmonization initiative has to be universally accepted by the strong body of accountants who might see these efforts as a threat to their profession. Full harmonization is argued to be purely normative and not positive. Global financial markets, globalization and multi-nationals have survived without harmonization. There are also wide differences in the commercial environment in which an organization operates, thus harmonization could threaten these environments that are bespoke to individual countries.

7. NEED TO ADOPT IFRS

"If we were to establish contact with parties in the global arena we should speak same language (i.e. IFRS)"

- Mr. Uday Phadke, President - Finance, Legal and Financial Services Sector and Member of Group Management Board, Mahindra & Mahindra Limited

As capital markets become increasingly global and India emerges as an economic superpower, it is becoming increasingly important for Indian corporations to adopt international reporting standards in order to rank pari passu with corporations the world over. IFRS not only brings transparency over the financial statements but also gives increased investor confidence. As with any regulatory change, IFRS conversion presents an opportunity to increase the credibility, not to reduce it. The transformation presents an opportunity to streamline its operations. The attitude adopted towards the conversion, would eventually decide whether the organization is able to seize the opportunity arising from the transformation. Thus convergence with IFRS is expected to result in several benefits to Indian entities. These are listed below:-

i. The key benefit would be a common accounting system and framework which is perceived as ***stable, transparent and fair*** to the local and foreign investors.

ii. Increased ***compatibility and comparability*** among the financial statements of sectors, countries and companies. Convergence with IFRS will eliminate multiple reporting and related costs, as the same set of financial statements can be used both for reporting at the entity level and at the consolidated level.

iii. Improved ***communication and interaction*** with investors and analysts which may provide companies with a competitive advantage and also wider access to capital at a lower cost. Indian entities may be able to initiate new relationships with investors, customers and suppliers internationally, since IFRS provides a globally accepted reporting platform.

iv. The use of IFRS is likely to ***enhance the reliability and image*** of financial reporting by Indian industry across the world, since it will be based on a global set of accounting standards. As a result Indian entities are likely to experience a wider availability of capital through increased cross border listing and investment opportunities.

v. Many organizations will be obligated to report using IFRS due to country requirements due to ***Globalization – opening of economies/ tariff barriers*. ** IFRS complaint financial statements are acceptable for financial reporting purposes in an increasing number of countries across the world. The U.S. SEC has permitted foreign entities listed in the U.S. to report under IFRS.

vi. The ***subsidiaries*** *of companies operating in jurisdictions where IFRS* is the accepted standard need to follow the same accounting standards as their corporate parents.

vii. The ***joint ventures with a venture partner operating in countries requiring IFRS*** also need to follow the same accounting standards as their venture partner.

viii. The ***multinationals seeking to enter new markets*** and expand operations to a foreign country may need to report using IFRS in order to obtain an operating license or raise capital.

ix. The process of conversion of IFRS generally results in ***harmonization of internal and external reporting*** which can assist entities in reducing costs as well as helping ensure consistency in financial reporting within the organisation as well as to external stakeholders.

x. The number of countries across the world where IFRS is a recognized reporting framework continues to grow. This ***brings opportunities*** to generate process and cost efficiencies in financial reporting. It will also potentially open up opportunities to standardize, simplify and centralize financial reporting processes and functions.

xi. It is widely expected that the use of a single global standard will enhance the efficiency of capital allocation on a global basis and help *reduce the* ***cost of capital.***

xii. IFRS will ***eliminate barriers*** to cross border listings and would be beneficial for the investors who generally ascribed ***risk premium*** if the underline financial information is not prepared in accordance with international standards.

The European experience of moving to IFRS indicates that entities that convert to IFRS experience significant internal as well as external benefits and that IFRS reporting contributes to the effective management of the business.

8. IFRS & INDIAN ACCOUNTING STANDARDS: A COMPARATIVE ANALYSIS

Even though Indian GAAP is inspired from IFRS, there are significant differences between them especially in areas of business combinations, group accounts, fixed asset accounting, presentation of financial statement, accounting for foreign exchange and financial instruments, to name a few; Indian GAAP is still a long way behind IFRS.

DIFFERENCES ON THE BASIS OF

CONCEPTUAL ACCOUNTING FRAMEWORK

CONTENT OF FINANCIAL STATEMENTS

ACCOUNTING DIFFERENCES

SUBJECT	IFRS	INDIAN GAAP
First time adoption	Full retrospective application of IFRS to PL and BS. Reconciliation of PL and BS in Respect of last year reported Numbers under previous GAAP.	No needs to prepare reconciliation on first time adoption
Components of Financial Statements	Comprises of Balance sheet, Profit and Loss A/c. Cash flow Statement, changes in Equity and accounting policy and notes to Accounts	Comprises of Balance sheet, Profit and Loss A/c. Cash flow Statement (if applicable), and Notes to Accounts
Balance Sheet	No particular format, a current/ non current presentation of Assets and liabilities is used.	As per Format Prescribed in Schedule VI for Companies, Adherence to Banking Regulation For Banks etc.
Income Statement	No particular format Prescribed (IAS-1)	As per Format Prescribed in Schedule VI (AS-1)
Cash Flow Statement	Mandatory for all entities (IAS-7)	Level 3 entities are exempted (AS-3)
Depreciation	Over the useful life of the asset. (IAS-16)	Over the useful life of the asset, or schedule xiv rates, whichever is higher? (AS-10)
Dividends	Liability to be recognized in the Period when dividend is Declared. (IAS-10)	Recognized as an appropriation against the Profit, and recorded as liability at B/S date even if declared Subsequent to reporting period But before the approval of Financial statements (AS-4)
Cost of major repairs and	Recognized in carrying amount of the assets	Expensed off. Only

overhaul expenditure on fixed assets	(IAS-16)	expenses,which increases the FEB are to be capitalized. (AS-10)
Revaluation	Revaluation (if done) to be updated periodically so that carrying amount does not differ from fair value at the end period. Revaluation to be done for entire class of assets (IAS-16)	No specific requirement for Revaluation. Revaluation can be done on systematic basis like for one location leaving aside the assets of other location. (AS-10)
Change in the method of depreciation	Considered as a change in Accounting estimate. To Be Applied prospectively. (IAS-16 and IAS 8)	Considered as change in Accounting policy, retrospective Computation and excess or deficit is adjusted in same Period. Required to be Disclosed(AS-6)
Earnings per share	Disclosure to be made in only consolidated financials of the Parent Co. (IAS-33)	Disclosure of EPS in both Consolidated and separate Financials. (AS-20)
Component accounting	Required each major Property Plant Equipment with a cost that is significant in relation to total Cost, should be depreciated separately (IAS-16)	No such requirement (AS-10)
Intangible assets	Intangible assets can have indefinite useful life and hence such assets are tested for impairment and not amortized.	There is no concept of indefinite useful life. Assets have definite life. (usually 10 years)
Reporting currency	Requires the measurement of Profit using the functional Currency. Entities may, however, Present financial statements in a different currency. (IAS-21)	Schedule VI to the Companies Act, 1956 specifies Indian rupees as the reporting currency. (AS-11)
Key management personnel (KMP)	Includes Executive as well as non executive directors (IAS-24)	Excludes non executive Directors. (AS-18)
Compensation to KMP	Disclosure to be made for total Compensation such as short term employee benefits and post employment benefits	AS-18 does not require the Break up of compensation Cost.
Fringe Benefits Tax	Included as part of related Expense (fringe benefit) which gives rise to incurrence of the Tax.	Disclosed as a separate item after profit before tax on the face of the income statement.
Uniform accounting policies	Prepared using uniform Accounting policies across all entities in a group. (IAS-27)	Policies may differ due to impracticability. (AS-21)
Disclosure of extra ordinary items	Prohibits such disclosure (IAS-1). No such term in IFRS	Disclosure to be made in Notes (AS-5)

Table1: IFRS & Indian Accounting Standards: A Comparative Analysis

A quick comparison might make you think that there are a lot of standards missing in IFRS, but that really is not the case. Page to page, IFRS has only 2,000 pages, whereas U.S. GAAP has 20,000-plus, Gannon says with IFRS you need to make your own judgments. To do so successfully, you need to create a framework to “process the facts, understand the economics, understand the practices and go beyond just speaking with accountants.

9. ROAD MAP FOR ADOPTION OF IFRS BY INDIAN CORPORATE

Based on the recommendations of the Core Group set up to facilitate IFRS convergence in India, the Ministry of Corporate Affairs (MCA) has announced the approach and timelines for achieving convergence with IFRS. ICAI is under the process of issuing IFRS equivalent Accounting Standards. For companies with exposure in European markets through equity or debt, such transparency is essential to raise capital cheap and hence, the proactive approach. The Indian accounting standards body, the Institute of Chartered Accountants of India (ICAI), has set a time line of 2011 for compulsory switchover to the new standard. There will be two separate sets of Accounting Standards under Section 211(3C) of the Companies Act, 1956. The first set would comprise the Indian Accounting Standards, which are converged with the IFRS (IFRS converged standards) and which shall be applicable to the specified class of companies in a phased manner. The second set would comprise the existing Indian Accounting Standards (existing accounting standards) and would be applicable to other companies, including Small and Medium Companies (SMC). The Announcement states that a separate roadmap for banking and insurance companies will be prepared and submitted to the government for consideration after consultation with the concerned regulators by 28 February 2010. The Announcement lays down a phased approach to convergence. This is similar to the proposed approach of other countries such as Japan and the United States. Convergence with IFRS is planned in three phases as set out below:
Phase 1 Companies covered in this phase will prepare an opening balance sheet in accordance with IFRS converged standards as of 1 April 2011 and will follow the IFRS converged standards from this date. The following companies will be covered in Phase 1:
Companies included in the Nifty 50; Companies included in the Sensex 30; Companies which have shares or other securities listed on stock exchanges outside India; and Companies (whether listed or not) which have a net worth in excess of Rs 1,000 crores.
Phase 2 Companies covered in this phase will prepare an opening balance sheet in accordance with IFRS converged standards as of 1 April, 2013 and will follow the IFRS converged standards from this date. All companies (whether listed or not) with a net worth in excess of Rs. 500 crore but less than Rs. 1000 crore will be covered in Phase2;
Phase 3 Companies covered in this phase will prepare an opening balance sheet in accordance with IFRS converged standards as of 1 April, 2014 and will follow the IFRS converged standards from this date. All listed companies with a net worth less than of Rs. 500 crore will be covered in Phase 3.

The ICAI has proposed two options for convergence:-

1- All at once
2- Stage wise Approach.

But since the stage wise approach leads to non compliance with either of IFRS or AS, hence the "all at once approach" has been adopted.

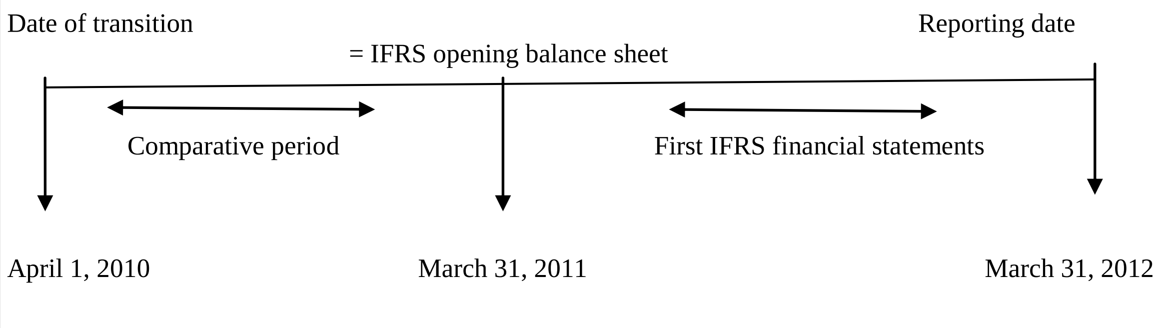
<u>FIRST TIME ADOPTION</u>

For first time adoption, two key terms needs to be understood:-

Reporting date-It is the end of latest period covered by financial statements.
Transition date- It is beginning of earliest period for which an entity presents first full IFRS compliant financial statements.

For an Indian Company, the first reporting date will be 31-03-2012 and transition date will be 01-04-2010. Hence, first set of financials shall be for 01-04-2011 to 31-03-2012 with IFRS comparables also to be provided for 01-04-2010 to 31-03-2011.

Proposed Timeliness



On 22 January 2010, the Ministry of Corporate Affairs issued an announcement, which confirms the manner in which IFRS convergence will be achieved in India. The key takeaways from the announcement are:

Convergence with IFRS in a phased manner starting 1 April 2011
Criteria for companies covered in each phase defined (For e.g. entities with net worth in excess of Rs. 1,000 crore will be covered in Phase I)
Two separate sets of Accounting Standards under Section 211(3C) of the Companies Act, 1956 – IFRS converged standards and existing accounting standards
Companies not covered will follow existing accounting standards; but may voluntarily converge
Separate notification for Banks and Insurance companies

The whole process of IFRS implementation starts with getting the complete insight about company's current accounting and reporting system as well as the review of all the relevant contacts and agreements with an objective to identify what are the changes that will be required while shifting from IGAAP to IFRS. Then based on the analysis, drafting the accounting policies will be followed under IFRS. The objective of this exercise is to make the company aware of probable changes, their impacts and approach that are required to handle those changes.

10. IFRS ADOPTION: A CASE STUDY OF WIPRO LIMITED

Many companies have already started following the new accounting standards because these ensure transparency and uniformity. The implementation would strengthen the confidence of stakeholders in the companies' financial statements, which, in turn, will bring value to the corporate. Companies have started the process of preparing IFRS compliant financial statements and are gearing up to adapt to the change in a timely manner to avoid last moment rush, as ICAI and Ministry of Corporate Affairs is committed to the deadline of IFRS adoption, which is April,2011. Few companies such as Wipro, Infosys Technologies, NIIT, Mahindra & Mahindra, Tata Motors, Bombay Dyeing and Dr Reddy's Laboratories have begun to align their accounting standards to IFRS, three years ahead of the mandatory time for the switchover. The case study of Wipro is discussed below.

10.1 About Wipro

Wipro Limited ("Wipro" or the "Parent Company"); together with its subsidiaries and equity accounted investees (collectively, "the Company" or the "Group") is a leading India based provider of IT Services, including Business Process Outsourcing ("BPO") services, globally. Further, Wipro has other businesses such as IT Products, Consumer Care and Lighting and Infrastructure engineering. Wipro is a public limited company incorporated and domiciled in India. Wipro registered office is in Karnataka. Wipro has its primary listing with Bombay Stock Exchange and National Stock exchange in India. The Company's American Depositary Shares representing equity shares are also listed on the New York Stock Exchange.

10.2 Basis for Preparation of Financial Statements

The condensed consolidated interim financial statements have been prepared in accordance with IFRS and its interpretations ("IFRS"), as issued by the IASB. The condensed consolidated interim financial statements are covered by IFRS 1, First time adoption of IFRS, as they are part of the period covered by the Company's first IFRS financial statements for the year ending March 31, 2010 and are prepared in accordance with International Accounting Standard (IAS) 34, "Interim financial reporting". Accounting policies have been applied consistently to all periods presented in the consolidated interim financial statements. As well as in preparing the IFRS opening balance sheet as at April 1, 2008 for the purpose of transition to IFRS and as required by IFRS 1. All applicable IFRS has been applied consistently and retrospectively, wherever, required. The resulting difference between the carrying amounts of the assets and liabilities in the consolidated financial statements under both IFRS and Indian GAAP as of the transition date are recognized directly in equity at the date of transition to IFRS.

10.3 Exceptions from Retrospective Application

(i) Business Combination Exemption The Company has applied the exemption as provided in IFRS 1 on non-application of IFRS 3, "Business Combinations" to business combinations consummated prior to the date of Transition. Pursuant to this, exemption goodwill arising from business combination has been stated at the carrying amount under Previous GAAP. Further, intangible assets net of related taxes, which were subsumed in goodwill under Previous GAAP, were not recognized in the opening statement of financial position as at April 1, 2008 since these did not qualify for recognition in the separate statement of financial position of the acquired entities. The Company has adjusted goodwill relating to past business combinations, for contingent consideration if it is probable that such consideration would be paid and can be measured reliably.

(ii) Share–based payment transaction exemption The Company has elected to apply the share based payment exemption available under IFRS 1on application of IFRS 2,"Share Based Payment", to only grants made after November 7, 2002 which remained unvested as of the Transition date.

(iii) Borrowing costs The Company had the policy of capitalizing borrowing costs under its Previous GAAP for all qualifying assets. Accordingly, the Company has capitalized borrowing cost in respect of qualifying costs prior to the Transition date. However, there is a difference in the bases of capitalizing such costs between IFRS and Previous GAAP, which has been recorded as a reconciling item as a part of the transition.

Exceptions from full retrospective application:

(i) Hedge accounting exception

The Company had followed hedge accounting under Previous GAAP which is aligned to IFRS. Accordingly, this exception of not reflecting in its opening IFRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting under IAS 39, is not applicable to the Company.

(ii) Estimates exception

Upon an assessment of the estimates made under Previous GAAP, the Company has concluded that there was no necessity to revise such estimates under IFRS, except where estimates were required by IFRS and not required by Previous GAAP.

10.4 Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost convention and on an accrual basis, except for certain financial instruments that have been measured at fair value as required by relevant IFRS. The consolidated interim financial statements as of and for the six months ended Sep 30, 2009 have been prepared and reported in India rupees and are further translated into US dollar at the certified foreign exchange rate of $ 1 = Rs. 48.09, as published by Federal Reserve Board of New York on Sep 30, 2009.

10.5 Reconciliation of Profit Statement as at March 31, 2009

Reconciliation of Profit for the year ended March 31, 2009

Particulars	Amount as per Previous GAAP	Effect of Transition to IFRS	Amount as per IFRS	Relevant Note for adjustment
Revenues……………………………….........	Rs. 256,995	Rs. (104)	Rs. 256,891	1
Cost of revenues…………………………….........	(179,195)	(985)	(180,180)	1,2, 5
Gross profit……………………………………	**77,800**	**(1,089)**	**76,711**	
Selling and marketing expenses……………	(17,853)	539	(17,314)	1(c),2,3,5
General and administrative expenses………	(14,390)	(154)	(14,544)	2,5
Foreign exchange gains/(losses), net……….	(1,553)	-	(1,553)	
Results from operating activities……………	**44,004**	**(704)**	**43,300**	
Finance and other income/(expense), net……..	1,192	41	1,233	4
Share of profits of equity accounted investees....	362	-	362	
Profit before tax……………………………..…	**45,558**	**(663)**	**44,895**	
Income tax expense……………….……………	(6,460)	425	(6,035)	5
Profit for the period……………………......	**Rs. 39,098**	**Rs. (238)**	**Rs. 38,860**	
Attributable to:				
Equity holders of the Company………………	Rs. 38,999		Rs. 38,761	
Minority Interest………………………...........	99		99	

Notes:
1) The following are the primary differences in revenue between IFRS and Previous GAAP:-

a) Under Previous GAAP, revenue is reported net of excise duty charged to customers. Under IFRS, revenue includes excise duty charged to customers. As a result, revenues and cost of revenues under IFRS is higher by Rs. 1,055.

b) Under IFRS, revenue relating to product installation services is recognized when the installation services are performed. Under Previous GAAP, the entire revenue relating to the supply and installation of products is recognized when products are delivered in accordance with the terms of contract. Installation services are considered to be incidental / perfunctory to product delivery and the cost of installation services is recognized upon delivery of the product. Accordingly, revenue and cost of revenue under IFRS is lower by Rs. 147 and Rs. 117, respectively.

c) Under IFRS, generally cash payments to customers pursuant to sales promotional activities are considered as sales discounts and reduced from revenue. Under Previous GAAP, they are considered as cost of revenue and selling and marketing expense. As a result, under IFRS, revenue is lower by Rs. 1,011 and cost of revenues and selling and marketing expenses are lower by Rs. 275 and Rs. 736, respectively.

2) Under IFRS, the Company amortizes stock compensation expense, relating to share options, which vest in a graded manner, on an accelerated basis. Under Previous GAAP, the stock compensation expense is recorded on a straight-line basis. As a result, under IFRS the Company has recognized additional stock compensation expense of Rs. 40 in cost of revenue, Rs. 30 in selling and marketing expenses and Rs. 30 in general and administrative expenses.

3) Under IFRS, the amortization charge in respect of finite life intangible assets is recorded in the proportion of economic benefits consumed during the period to the expected total economic benefits from the intangible asset.

Under Previous GAAP, such finite life intangible assets are amortized on a straight-line basis over the life of the asset. Further, the Company recorded additional amortization in respect of customer related intangible arising out of business combination consummated subsequent to the Transition date. Accordingly, amortization under IFRS is higher by Rs. 43.

4) This includes difference in the basis of capitalizing interest expense under IFRS and Previous GAAP.

5) Under Indian tax laws, the Company is required to pay Fringe Benefit Tax (FBT) on certain expenses incurred by the Company. Under Previous GAAP, FBT is reported in the income statement as a separate component of income tax expense. Under IFRS, FBT does not meet the definition of income tax expense and is recognized in the related expense line items. Accordingly, the cost of revenue, selling and marketing expenses and general and administrative expenses under IFRS are higher by Rs. 165, Rs. 124 and Rs. 124, respectively.

Explanation of material adjustments to the cash flow statements

Under Previous GAAP, changes in amount of bank overdraft balances are reported as financing activity. Under IFRS, bank overdraft is included in cash and cash equivalent and consequently the cash flow from financing activities are reported on a different basis.

11. IFRS ADOPTION: IMPACT AND CONSEQUENCES

How will this transition impact the Indian industry?

Convergence to IFRS will greatly enhance an Indian entities' ability to raise and attract foreign capital at a low cost. A common accounting language, such as IFRS, will help Indian companies benchmark their performance with global counterparts. There will be escape from multiple reports for global Indian companies that have to prepare their financial statements under multiple GAAPs. With the knowledge of IFRS the Indian Chartered Accountant would be globally acceptable

11.1 Major Issues in First Time Adoption of IFRSs

Classification of assets and liabilities into current and non-current
This difference arises out of Schedule VI to the Companies Act. Actions to be taken are –

(i) *Classification of financial assets* into current and noncurrent;
(ii) *Adopting operating cycle concept* for classification of trade debtors, inventories and trade creditors.
(iii) Introduction of the *concept property, plant and equipment (PPE)* in place of Fixed Assets;
(iv) Classification of PPE into held for sale and discontinued operations and carrying them out at *fair value less costs to sell* and *no depreciation charge* on such block of assets;
(v) *Carving out investment property* (land and building which are not owner occupied) from PPE;
(vi) *Carving out leasehold property* out of PPE in accordance with IAS 17 Leases and accounting it as prepaid leases (IAS 19 classifies leasehold land as operating lease) ;
(vii) *Re-classification of goodwill* into intangible assets in accordance with IFRS 3 Business Combinations if those intangible assets require recognition in Accordance with IAS 38 on the date of transition;
(viii) *Classification of current liabilities* out instalments due within 12 months from the reporting date out of noncurrent liabilities;
(ix) Taking *cognizance of breaches of loan* conditions and discretion to roll over while classifying current/noncurrent liabilities;
(x) *Evaluating preference shares and classifying as liability* if the definition of equity is not satisfied;
(xi) Accounting for *preference dividend as borrowing cost* if it is classified as Liability;
(xii) Classifying potable instruments as liability rather than equity in accordance with IAS 32.

(xiii) *Deferred tax asset* (liability) is not classified as current.

Identification of Inconsistencies between Various Laws and Regulations

Constitution of a Group to Liaison with Governmental and Regulatory Authorities Group has constituted separate Core Groups to identify inconsistencies between IFRSs and Companies Act, SEBI Regulations, Banking Laws & Regulations, and Insurance Laws & Regulations respectively.

11.2 What has been done so far by the Group?

Inconsistencies between Companies Act and IFRSs identified Draft Schedule VI consistent with IFRSs formulated- should be made effective from 1-4-2011
Inconsistencies between SEBI Mutual Fund Regulations and IFRSs identified Examination of other SEBI Regulations in progress

12. CONCLUSION

A successful transition requires a well thought of plan and hopefully well in advance. The ICAI has proposed convergence with IFRS from the accounting periods commencing on or after 1 April 2011 for Sensex30 and Nifty50 listed companies and other public interest entities such as banks, insurance companies and other large sized entities. Convergence in India would be facilitated by the fact that historically Indian accounting standards have been based on principles as against rules. However, given the nature of accounting and peculiarities of the Indian economic environment, the process of convergence has its own set of challenges. The conflicting legal and regulatory requirements related to financial statements, the technical preparedness of industry and accounting professionals and the economic environment prevailing in the country will pose challenges to this convergence. But there is a growing international consensus on the IFRSs as accepted standards for assessment of the financial health of a company across the globe. This proposed convergence with IFRS is desirable as it presents Indian Industry an opportunity to have a financial accounting framework that is truly global in nature and is expected to provide enhanced access to capital markets globally and facilitate inter-firm comparisons on a more even keel than ever before.

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