



A comparison study of financial statement prepared under pre and post adoption of IFRS: A case study between Infosys Limited (Large Cap) and Rolta India Limited (Small Cap)

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Abstract

International Financial Reporting Standard is referred to as IFRS. This unified set of accounting standards exists. Companies, accountants, auditors, investors, regulators, and authorities utilise this. Accounting guidelines are a collection of rules that businesses follow while putting together their financial statements. The IFRS foundation oversees and regulates these standards. A non-profit organisation called the IFRS foundation creates the same set of excellent, comprehensible, and enforceable accounting principles. Countries all throughout the world utilise this.

In this paper we found the Pre and post effect of IFRS (international financial reporting standard) on large cap company as well as small cap company.

Keywords: IFRS, IND-AS conversion financial activities valuation, profitability liquidity and turnover

Introduction

The International Accounting Standard Board (IASB) is responsible for creating IFRS. The creation of a single set of international financial reporting standards is the aim of the IASB and IFRS foundation. The global financial market now has openness, accountability, and efficiency. By encouraging confidence, development, and long-term financial stability in the global economy, such norms serve the public good. International financial reporting standards have so acquired popularity on a global scale. For regulators, professional organisations, international investors, and all other stake holders who utilise the financial information of public businesses, international reporting convergence is a current and crucial problem.

The purpose of this research is to investigate how IFRS adoption has affected the financial operations of Indian enterprises. In financial activities, we have taken into account both turnover and liquidity when valuing profits. Additionally, we looked into the contrast between large-cap companies and small-cap companies.

Review of literature

Dr. Srivastava Anubha (2020) the author's analyzed that 50% of respondents think that adoption of IFRS will reduce the cost of equity and help avoid funds. A high-quality accounting standard like IFRS also aids in lowering capital risk. The overall cost of debt will be reduced due to the lower risk. Additionally, it helps with the early detection of corporate finances. Although more training and seminars is required for accounting professionals when IFRS becomes fully converged in India. In light of the improved environment that IFRS would create for business stakeholders and the global marketplace, it is argued that IFRS should be embraced with open arms. PurohitNeetu&Dr. Tiwari A.K. (2017) study compared the balance sheet and the profit and loss statement. And his judgement suggested the impact of IFRS on the balance sheet was greater than the impact on the profit and loss account. While profits have somewhat decreased under IFRS reporting, there have been significant changes to the balance sheet, particularly an increase in noncurrent liabilities and equity share capital as a result of fair value

accounting. The rise in equity share capital was beneficial to businesses because it indicates that equity shareholder value has increased and has come closer to market value. However, a growth in current and noncurrent liabilities would mean that businesses would need to spend more money in the future to cover their increased obligations. Pravathy P.R. (2017) the IFRS and Indian accounting standards' convergence promote more confidence in the international capital market. There has been a sluggish but steady conversion process in India, and it is predicted that a standardised set of high-quality standards would be established. There are various adjustments that take place while moving to IFRS. In addition to making sure that the proper sanctions are enforced in accordance with existing law, the regulator and legislator must establish an efficient system for tracking IFRS compliance with laws. Giri Radhika (2020) In this paper the convergence of IFRS ensure greater credibility in international capital market. it also provided new way of working. It also saves the time and effort as management of corporate can view all corporate as a group on common platform. Mohammad Shamim and Ansari Ahmad Anurag Sharma, Devi Laxmi (2016) the author analyzed that the stakeholder should be trained. Effective control system has to be put, the tax system also be restructured in the manner which will be match with the IFRS. Dr. kumawatSahai Hanuman (2019) Historical cost used for preparing financial statement in Indian companies so there was a difficulty after adoption of IFRS because in IFRS the treatment of financial statement is done on the basis of Fair value accounting. This study also concluded that adoption of IFRS bring comparability and transparency in accounting treatments.

Research methodology

In this paper we have taken ten years data from annual reports of Infosys Company and Rolta India limited which is from 2012-2021. And also, we have applied ANOVAs test to make comparison between Large company (Infosys limited) and small cap company (Rolta India limited). We also make the comparison of Pre-adoption which is known as GAAP and post adoption of IFRS which is known as IFRS.

Objective of the research

- To find out effect of financial health on large cap as well as small cap company in perspective of liquidity, profitability, Turnover and valuation of the company.

Hypothesis of the study

Hypothesis 1

H0: There is statically difference between large cap and mid Cap Company in perspective of financial health, liquidity,

profit and valuation of the company of pre and post adoption of IFRS

H1: There is no statically difference between large cap and mid Cap Company in perspective of financial health, liquidity, profit and valuation of the company of pre and post adoption of IFRS

Data analysis and interpretation

Liquidity Ratio

Source	DF	Sum of square (ss)	Mean square (ms)	F statistic	P-value
Factor A - rows (A)	2	33936.7629	16968.3815	73.6469 (2,54)	3.331e-16
Factor B - columns (B)	1	1187.4381	1187.4381	5.1538 (1,54)	0.02721
Interaction AB	2	7703.5546	3851.7773	16.7177 (2,54)	0.000002234
Error	54	12441.6916	230.4017		
Total	59	55269.4472	936.7703		

Variance

Liquidity Ratio	Infosys (2011-21)	Rolta (2011-21)	Total
Current Ratio	0.458	0.6944	2.0693
Dividend Payout ratio	308.5541	152.7066	625.4126
Earning Retention ratio	308.5541	611.4428	495.291
Total	694.9936	1169.9032	936.7703

Mean confidence interval

Liquidity Ratio	Infosys (2011-21)	Rolta (2011-21)	Total
Current Ratio	[2.2076,4.7244]	[-0.4895,2.6095]	[-0.485,5.011]
Dividend Payout ratio	[14.5046,79.8274]	[-15.1343,30.8203]	[-20.2697,75.2787]
Earning Retention ratio	[20.1726,85.4954]	[21.8933,113.8487]	[17.8377,102.8673]
Total	[-16.3129,85.2902]	[-40.3202,91.5029]	[-29.446,89.526]

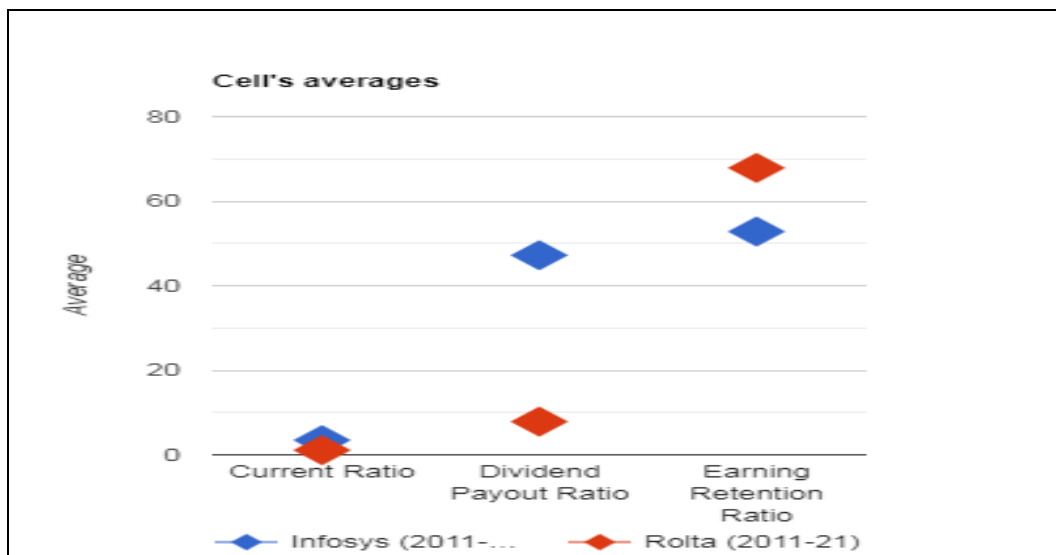


Fig: 1

Factor A

The P-value

A 3.31e-16 P-value used. It suggested that there was little chance of making a type I error, which would be to reject a valid Ho. The strength of the evidence for H1 increases with decreasing P-value.

Test statistic

The test statistic FA was equivalent to 73.6469, which was beyond the acceptable 95% range.

Effect size

Significantly, the observed effect size of η^2 was 0.73. This shows that there was a large difference between the averages.

Factor B

The P-value

The likelihood was 0.00271. ($P(X \leq 5.1538) = 0.9728$). It suggested that there was very little chance of a type I mistake, which would reject a valid Ho. 0.02721 (2.72%). Decrease the P-value H1 gets greater support.

Test statistic

The test statistic FB was 5.1538, which outside of the [0, 4.0195] 95% acceptable range.

Effect Size

The impact size η^2 measured was 0.087, which was considered medium. This showed that the difference between the averages was moderate.

Interaction AB

The P-value

(P (X16.7177) =1) The probability was 0.000002234. Its

implied possibility of a type I error (rejecting a Ho) minimal. 0.000002234 (0.00022%) H1 gets greater support the lower the P-value.

Test statistic

The test statistic FAB was 16.7177, which was outside of the [0, 3.1682] 95% acceptable range.

Effect Size

The calculated impact size η^2 was substantial, coming in at 0.38. This showed that there was large difference between the averages.

Profitability Ratio

Source	DF	Sum of square (ss)	Mean square (ms)	F statistic (df1,df2)	P-value
Factor A - rows (A)	5	32978.3024	6595.6605	3.3206 (5,108)	0.007901
Factor B - columns (B)	1	18250.6201	18250.6201	9.1884 (1,108)	0.003049
Interaction AB	5	22826.644	4565.3288	2.2984 (5,108)	0.05
Error	108	214517.4013	1986.2722		
Total	119	288572.9678	2424.9829		

Variance

Profitability Ratio	Infosys (2011-21)	RoIta (2011-21)	Total
PBDIT Margin (%)	9.0823	272.1316	138.8381
PBIT Margin (%)	10.0672	249.9296	195.8208
Net Profit Ratio	4.6205	13399.3241	7997.8065
Return on Net worth	2.9315	9102.4499	4330.6882
Return on capital employed	14.2219	69.1866	190.6086
Return on assets%	2.0006	699.321	598.5886
Total	27.2391	4554.4957	2424.9829

Mean confidence interval

Profitability Ratio	Infosys (2011-21)	RoIta (2011-21)	Total
PBDIT Margin (%)	[26.3074,37.5146]	[-3.3882,57.9582]	[7.0886,52.1074]
PBIT Margin (%)	[23.3754,35.1746]	[-16.7373,42.0533]	[-5.766,47.699]
Net Profit Ratio	[17.4232,25.4168]	[-272.963,157.505]	[-188.9968,152.6878]
Return on Net worth	[20.9584,27.3256]	[-145.0749,209.7209]	[-97.4829,153.9479]
Return on capital employed	[20.4919,34.5161]	[-11.9241,19.0081]	[-10.8513,41.8973]
Return on assets%	[16.2201,21.4799]	[-62.1368,36.2048]	[-43.7964,49.6804]
Total	[15.3733,35.6607]	[-130.313,132.0174]	[-82.9291,109.2983]

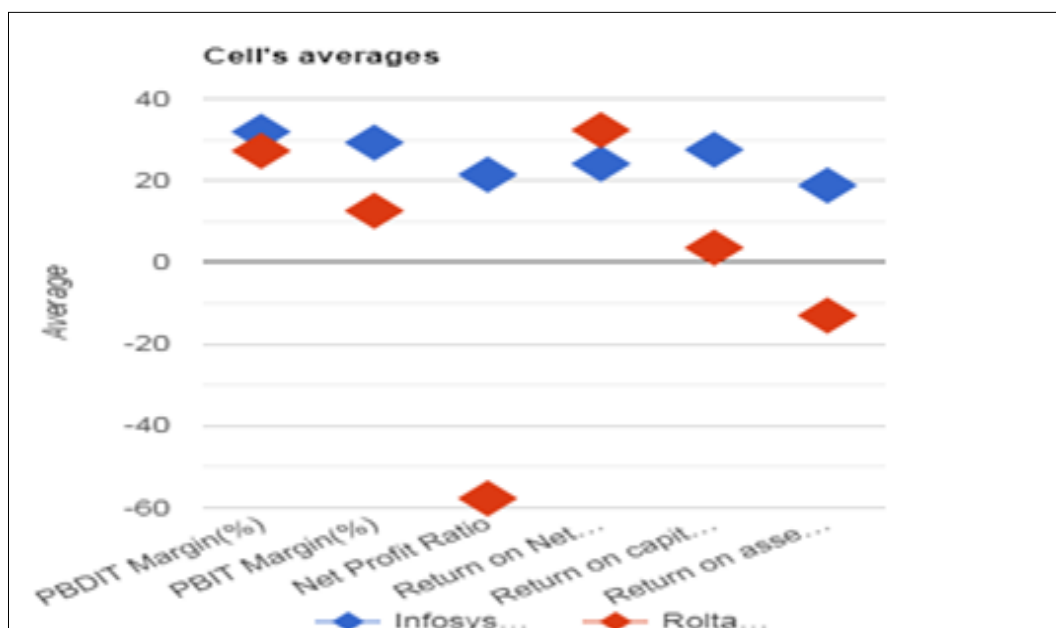


Fig: 2

Factor A

The P-value

Setting the P value to 0.007901 ($P(x \leq 3.3206) = 0.9921$). These indicated that there was a low probability of making a type I error (rejecting a valid H_0): 0.007901 (0.79%). The support for H_1 was stronger the lower the P-value.

Test statistic

The test statistic FA 3.3206 was outside the 95% acceptable range: [0, 2.2984].

Effect Size

The impact size η^2 measured was 0.13, which considered medium. This showed that the difference between the averages was moderate.

Factor B

The P-value

0.003049 was the P-value. ($P(X \leq 9.1884) = 0.997$). It suggested that possibility of a type I Error (rejecting a valid H_0) was minimal. 0.003049 (0.3%) The lower the P-value, the more evidence supports H_1 .

Test Statistic

The test statistic FB was 9.1884, which was outside of the [0, 3.929] 95% zone of acceptability.

Effect Size

The measured effect size η^2 was 0.078, with a medium value. This suggested that the average difference between the averages was of a considerable size.

Interaction AB

The P-value

$P(X \leq 2.2984) = 0.95$, and the P-value was 0.05. It implied that the chances of committing a type I error (rejecting a valid H_0) are low: P-values less than 0.05 (5%) more strongly support H_1 .

Test Statistic

The 95% range of acceptability for the test statistic FAB is [0, 2.2984], which was not true. Its value was 2.2984.

Effect Size

A medium effect size η^2 was 0.096 has been recorded. This suggested that the average difference between the averages was of a considerable size.

Turnover Ratio

Source	DF	Sum of square (ss)	Mean square (ms)	F statistic (df1,df2)	P-value
Factor A - rows (A)	2	30871.8241	15435.912	34.0152 (2,54)	2.754e-10
Factor B - columns (B)	1	26528.9248	26528.9248	58.4602 (1,54)	3.686e-10
Interaction AB	2	6844.7512	3422.3756	7.5417 (2,54)	0.001293
Error	54	24504.918	453.7948		
Total	59	88750.4182	1504.2444		

Variance

Turnover Ratio	Infosys (2011-21)	Rolta (2011-21)	Total
Inventory Ratio	2438.5778	33.3606	2052.0651
Total asset turnover ratio	36.3454	77.0412	892.0811
Capital turnover ratio	136.7592	0.6845	102.0956
Total	1936.0788	209.4899	1504.2444

Mean confidence interval

Turnover Ratio	Infosys (2011-21)	Rolta (2011-21)	Total
Inventory Ratio	[-18.8441,164.7961]	[4.3714,25.8506]	[-42.4942,130.5812]
Total asset turnover ratio	[77.2753,99.6947]	[15.7216,48.3624]	[3.2061,117.3209]
Capital turnover ratio	[-9.6854,33.8034]	[-1.3353,1.7413]	[-13.1715,25.4335]
Total	[-26.9507,142.6307]	[-12.1059,43.6766]	[-38.5676,112.1929]

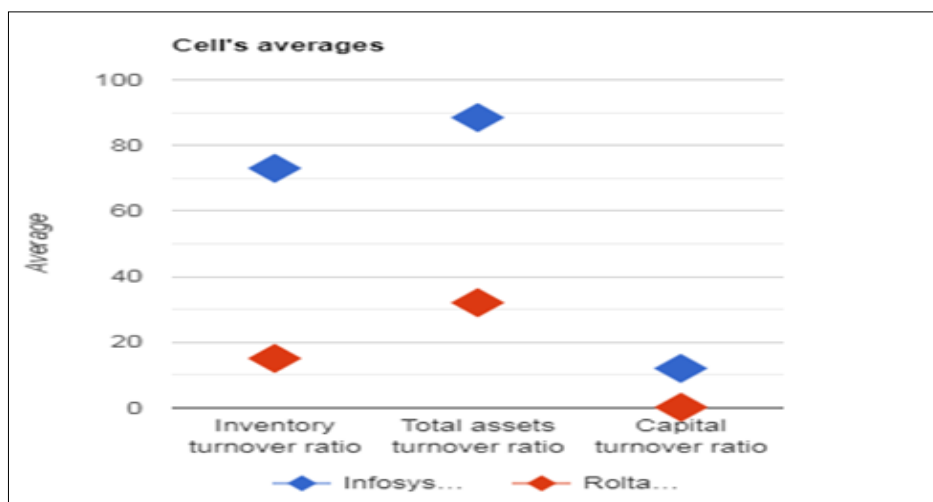


Fig: 3

Factor A

The P-value

The P-value was $P=2.754e-10$. ($P(X \leq 34.1052) = 1$). It suggested there was little chance of making a type I error (rejecting a legitimate H_0). $2.754e-10$ (2.8e-8%). The smaller the P-value, the more evidence there was for H_1 .

Test statistic

The [0, 3.1682] 95% acceptable range exceeded by the test statistic FA, which was 34.0152.

Effect size

The evaluated effect size η^2 was significant, at 0.56. This suggested that there was a significant disparity between the averages.

Factor B

The P-value

The P-value for $P(x=58.4602)$ was $3.686e-10$, or 1. It showed a little chance of making a type I error (rejecting a legitimate H_0): $3.686e-10$ (3.7e-8%). The Smaller the P-value, the more evidence there for H_1 .

Test statistic

The test statistic FB was equal to 58.4602 and thus not within the [0, 4.0195] 95% acceptable range.

Effect Size

The impact size as observed was η^2 . It was big, 0.52 in size. This demonstrates how wide the difference between the averages.

Interaction AB

The P-value

0.001293 was the P-value ($P(X7.5417) = 0.987$). It means that there was little chance of a type I mistake (rejecting a valid H_0): 0.001293 (0.13%) Decrease the P-value H_1 observed greater support.

Test statistic

The test statistic F_{AB} was 7.5417, which was beyond the [0, 3.1682] 95% acceptability range.

Effect Size

The calculated effect size η^2 was 0.22, which was rather significant. This showed that there was a large difference between the averages.

Valuation Ratio

Source	DF	Sum of square (SS)	Mean square (ms)	F statistic (df1,df2)	P-Value
Factor A - rows (A)	4	35058.9061	8764.7265	27.4244 (4,90)	6.883e-15
Factor B - columns (B)	1	1132.9956	1132.9956	3.5451 (1,90)	0.06295
Interaction AB	4	392.8224	98.2056	0.3073 (4,90)	0.8724
Error	90	28763.6011	319.5956		
Total	99	65348.3252	660.0841		

Variance

Valuation Ratio	Infosy (2011-21)	Rolta (2011-21)	Total
EV to net operating revenue	0.6289	1.2075	1.3798
EV to EBITDA(X)	6.887	371.4748	187.512
Retention ratios	308.5541	2058.7129	1151.3029
Price to BV ratio	1.3477	0.4456	5.3013
Earnings yield	0.00008444	446.697	248.684
Total	445.2579	865.259	660.0841

Mean confidence interval

Valuation Ratio	Infosys (2011-21)	Rolta (2011-21)	Total
EV to net operating revenue	[2.2705,5.2195]	[0.3098,4.3962]	[0.805,5.293]
EV to EBITDA(X)	[6.9014,16.6606]	[-29.6682,42.0062]	[-17.1842,35.1342]
Retention ratios	[20.1626,85.4854]	[-42.213,126.519]	[-17.3309,112.3079]
Price to BV ratio	[2.5624,6.8796]	[-0.6332,1.8492]	[-1.7339,7.0629]
Earnings yield	[0.03491,0.06909]	[-51.1185,27.4785]	[-36.0095,24.2415]
Total	[-26.3172,55.5664]	[-49.1809,64.9661]	[-38.8446,61.3618]

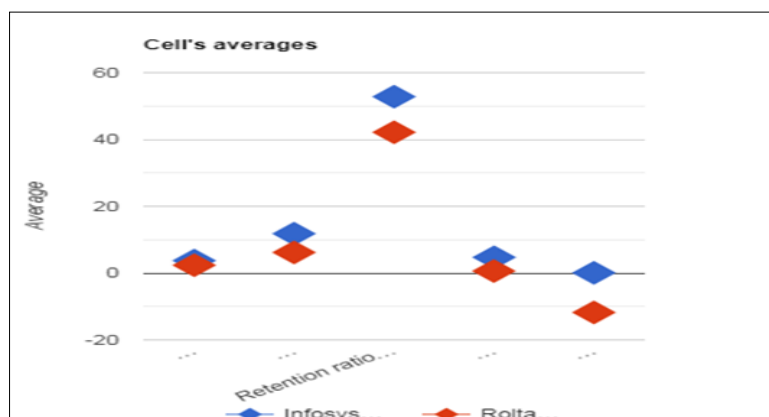


Fig: 4

Factor A**The P-value**

The P-value was $6.883e-15$ ($P(X=27.4244) = 1$). It implied that there was a very minimal chance of making a type I error (rejecting a valid H_0). $6.883e-15$ (6.9e-13%) The supported for H_1 was stronger the lower the P-value.

Test Statistic

The test statistic FA 27.4244, which was outside of the [0, 2.4729] 95% acceptable area.

Effect size

The calculated impact size of $\eta^2=0.55$, was significant. This shows that there was a large difference between the averages.

Factor B**The P-value**

With ($P(x=3.5451) = 0.937$), the P-value was 0.06295. This implied that the likelihood of a type I error (rejecting a valid H_0) was low: 0.06295 (6.3%). The higher the P-value, the more support there was for H_1 .

Test Statistic

The test statistic FB is 3.5451, which was above than the 95% acceptable range: [0, 3.9469].

Effect Size

At 0.038, the measured effect size η^2 was small. The variance between the averages was really small.

Interaction AB**The P-value**

0.001293 was the P-value ($P(X=7.5417) = 0.987$). It suggested that it was a little chance of a type I mistake (rejecting a valid H_0): 0.001293 (0.13%). The higher the P-value and the stronger support to H_1 .

Test statistic

The test statistic FAB was 7.5417, which was outside of the [0, 3.1682] 95% acceptable area.

Effect Size

The measured effect size η^2 was 0.22, which was rather substantial. This suggested that the size of the gap between the averages was significant.

Conclusion

In this paper we compared between Large cap company (Infosys limited) and small cap company (Rolta India limited) to see the outcome of adoption of IFRS. In this studied we have analysed that there was no statistical significance difference between pre and post adoption of IFRS between large cap and small cap company in perspective of 'Liquidity'. The P-value of Liquidity of factor A was $3.331e-16$ and factor B the P value was 0.02721 and interaction of AB P-value was 0.000002234 which was less than the 95% region of acceptance. And the P-value of Profitability of factor A was 0.007901 and factor B the P value was 0.003049 and interaction of AB P-value was 0.05 which was less than the 95% region of acceptance. The P-value of Turnover of factor A was $2.754e-10$ and factor B the P value was $3.686e-10$ and interaction of AB P-value was 0.001293 which was less than the 95% region of

acceptance. And the P-value of Valuation of factor A was $6.883e-15$ and factor B the P value was 0.06295 and interaction of AB P-value was 0.8724 which was less than the 95% region of acceptance. So, the overall result concludes that it has no effect of pre and post adoption of IFRS in between large cap company (Infosys limited) and small cap company (Rolta India limited).

Suggestions and Recommendations

- This study is limited to the financial aspect we have to take more aspect to see the effect of pre and post adoption of IFRS.
- The further research we can take more than two companies.

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