

## IFRS AND CORPORATE REPORTING: A CASE STUDY OF GLENMARK PHARMACEUTICALS LIMITED

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### ABSTRACT

*The main objective of corporate reporting is to provide information on the financial aspects of a company. With the establishment of multinational corporations in various countries, the role of corporate reporting has become much important. The investors are most important stakeholders who are interested to know regarding the performance of an entity and are keen to learn through the annual reports every year. But in case of foreign investors it would not be easy for them to understand the financial statements prepared by following the local accounting standards. Therefore, it is necessary to practice uniform accounting standards world-wide. The International Financial Reporting Standards (IFRS) are a set of accounting standards that help the investors globally to understand the financial statements prepared by a company. At present more than hundred countries around the world are following IFRS. In India, some companies which have global presence in the stock markets have adopted IFRS voluntarily and followed dual reporting before the IFRS were made mandatory. The Pharmaceutical Industry in India is the world's third-largest in terms of volume and continues to play a quantifiable role in manufacturing various critical, high quality and low-cost medicines for Indian as well as global markets. This paper tries to study the benefits of IFRS adoption and examine the impact of IFRS adoption on various components of balance sheet of Glenmark Pharmaceuticals Limited through Gray Index of Conservatism.*

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**Keywords:** IFRS, Gray Index of Conservatism, Optimism, Fair Value.

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### Introduction

The main objective of corporate reporting is to communicate the stakeholders regarding the financial aspects of a company. With the establishment of multinational corporations in various countries, the role of corporate reporting has become much important in communicating the annual results. Each country has its own accounting standards which suit the local requirement as per the business environment. In the process of mobilizing the capital, the companies are now-a-days accessing various capital markets across the globe and investors are the most important stakeholders who are interested to know regarding the performance of a company and are keen to learn through the annual reports every year. But in case of foreign investors subscribing capital to a multinational company, it would not be easy for them to understand the financial statements prepared according to the local accounting standards. Therefore, it is necessary to practice uniform accounting standards world-wide. The International Financial Reporting Standards are a set of accounting standards that help the investors globally to understand the financial statements prepared by a company. At present more than hundred countries around the world are following IFRS. In India, some companies which have global presence in the stock markets have adopted IFRS voluntarily and followed dual reporting before the IFRS were made mandatory. The Pharmaceutical Industry in India is the world's third-largest in terms of volume and continues to play a quantifiable role in manufacturing various critical, high quality and low-cost medicines for Indian as well as global markets.

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## Review of Literature

**Anubha Srivastava and Preeti Kulshreshtha<sup>1</sup>** on benefits of IFRS adoption in India reported that auditors from the audit firms were optimistic on the benefits of IFRS adoption and overall benefits of IFRS still offset its challenges with a lot of advantages like timely information for decision making, comparison of financial statements and better access to capital market.

**Milan B Undavia<sup>2</sup>** on benefits, problems and challenges of IFRS adoption in India commented that convergence to IFRS is likely to improve the relevance, reliability and comparability of financial reports and therefore benefit global investors. Further, it is expected that the global financial reporting process will ultimately be in the form of single set of high quality accounting standards as issued by the IASB.

**M Muniraju and Ganesh S R<sup>3</sup>** on impact of IFRS on Indian corporate sector concluded that adoption of IFRS is more beneficial to attract the world capital market. The impact of IFRS on various industries was analyzed and it was felt that FMCG companies are subject to a greater variety of risks like credit risk, foreign currency risk, interest rate risk etc., and the fair value accounting rules and stricter requirements of certain accounting issues have brought changes in accounting figures and financial ratios.

**Preeti Srivastava et al<sup>4</sup>** in a study on challenges and prospects of IFRS found that adoption of converged IFRS in India will considerably change the contents of financial statements of the companies and will bring more refined measurements of performance and state of affairs leading to greater transparency and comparability. Finally, it was observed that mandatory IFRS adoption improved information comparability across countries.

**Menu Sambaru and N V Kavitha<sup>5</sup>** on adoption of IFRS in India noted that there will be improvement in comparability of financial information globally. This will result in more transparent financial reporting of a company's activities which in turn will benefit investors, customers and other key stakeholders. Further, the most significant requirement is to develop IFRS skills among the accounting professionals. Finally, it is imperative for Indian companies to improve their preparedness for IFRS adoption.

The review of literature shows that studies on IFRS adoption and its benefits have been made in various dimensions. It appears that very less number of studies have been taken up in the area of pharmaceutical industry. Hence, a micro study is taken up to analyze the impact of IFRS adoption on financial statements by applying an appropriate index.

## Objectives

- To study the benefits of IFRS in corporate reporting
- To analyze the impact of IFRS adoption on financial statements

## Methodology

This paper is based on exploratory research and aims at analyzing the benefits of IFRS adoption on financial statements. The Glenmark Pharmaceuticals Limited prepared the consolidated financial statements by following IFRS for the financial years 2010-11 to 2015-16 and has provided the consolidated financial statements both under Indian GAAP and IFRS for the financial years 2014-15 and 2015-16. To undertake a micro study and to analyze the impact of IFRS adoption, the published annual reports of Glenmark Pharmaceuticals Limited for the financial years 2014-15 and 2015-16 have been collected and analyzed through the Gray Index of Conservatism. Since, the adoption of Ind-AS (converged form of IFRS) was made mandatory in India, the comparison of financial statements under Indian GAAP and IFRS could not be done for the financial years 2016-17 onwards.

## Benefits of IFRS

Accounting is normally called as the language of business. Every company communicates with its stakeholders through corporate reporting. At this juncture, it is important to note that financial statements give a picture of financial health of a company.

To make financial statements easily understandable by the global stakeholders, IFRS are a set of new accounting standards to be followed while preparing the financial statements by a company.

The following are some of the benefits that accrue on IFRS adoption:

- Comparability of financial statements
- Access to global markets for capital
- Transparency in corporate reporting

- Reliability in financial statements
- Global opportunities to accounting professionals
- Growth of international business

### Impact of IFRS Adoption on Financial Statements of Glenmark Pharmaceuticals Limited

International Financial Reporting Standards are designed as common accounting standards across the globe and this is going to bring changes in the financial statements prepared by a company. In order to undertake a micro study of changes in corporate reporting consequent to IFRS adoption, Gray Index of Conservatism is used to analyze the impact on Balance Sheet of Glenmark Pharmaceuticals Limited for the financial years 2014-15 and 2015-16.

#### Gray Index of Conservatism

The Gray Index of Conservatism is widely used index to quantify the impact of adoption of a new accounting standard and to arrive at conclusions on the relative impact of the new accounting standard on the old accounting standard.

Gray Index of Conservatism:

$$1 - \frac{\text{Value}_{IGAAP} - \text{Value}_{IFRS}}{\text{Value}_{IGAAP}}$$

Accordingly, the degree of conservatism as per the Gray Index of Conservatism is understood in the following ways:

- Conservatism or pessimism – the IFRS are more prudent than the Indian GAAP when an index < 0.95
- Neutrality when the index value is between 0.95 and 1.05
- Optimism or less conservatism – the IFRS are less cautious than the Indian GAAP for an index over 1.05

The Gray Index of Conservatism is calculated from the published annual reports of Glenmark Pharmaceuticals Limited for the financial years 2014-15 and 2015-16 and analysis is done to measure the impact of IFRS adoption on various components of the balance sheet.

**Table 1: Gray Index of Conservatism and Balance sheet of Glenmark Pharmaceuticals Limited as on 31 March 2015**

(Rupees in Indian Millions)

Particulars	Indian GAAP Rs.	IFRS Rs.	Difference in Rs.	Difference in Percentage	Gray Index of Conservatism
Total Current Assets	53310.63	53232.74	77.89	0.15	1.00
Total Non-Current Assets	31128.47	43642.32	-12513.85	-40.20	1.40
Total Assets	84439.10	96875.06	-12435.96	-14.73	1.15
Total Current liabilities	17833.07	30001.49	-12168.42	-68.24	1.68
Total Non-Current liabilities	28838.93	29760.67	-921.74	-3.20	1.03
Total Equity	37767.10	37112.90	654.20	1.73	0.98
Total Equity and Liabilities	84439.10	96875.06	-12435.96	-14.73	1.15

Source: Annual Report

It is clear from table 1 that the Gray Index values calculated for the various components of balance sheet for the financial year 2014-15 are higher than 1 except in two components. Further, the impact of IFRS adoption from table 1 can be understood as follows:

- There is neutrality in the values recorded in total equity, non-current liabilities and current assets component as the index is between 0.95 and 1.05.
- There is optimism in values recorded in total non-current assets, total assets, total current liabilities and total equity and liabilities as the index is more than 1.05.

**Table 2: Gray Index of Conservatism and Balance sheet of Glenmark Pharmaceuticals Limited as on 31 March 2016**

(Rupees in Indian Millions)

Particulars	Indian GAAP Rs.	IFRS Rs.	Difference in Rs.	Difference in Percentage	Gray Index of Conservatism
Total Current Assets	59110.53	59096.25	14.28	0.02	1.00
Total Non-Current Assets	39343.15	51930.11	-12586.96	-31.99	1.32
Total Assets	98453.68	111026.36	-12572.68	-12.77	1.13
Total Current liabilities	30561.40	42699.45	-12138.05	-39.72	1.40
Total Non-Current liabilities	27219.85	28309.29	-1089.44	-4.00	1.04
Total Equity	40672.43	40017.62	654.81	1.61	0.98
Total Equity and Liabilities	98453.68	111026.36	-12572.68	-12.77	1.13

Source: Annual Report

It is understandable from table 2 that the Gray Index values calculated for various components of balance sheet for the financial year 2015-16 are higher than 1 in all components except two components. Hence, the effect of IFRS adoption can be analysed as follows:

- There is neutrality in values recorded in the components total current assets, total non-current liabilities and total equity as the index is between 0.95 and 1.05.
- There is optimism in values recorded in the components total non-current assets, total assets, total current liabilities and total equity and liabilities as the index is more than 1.05.

#### Conclusion

Finally, it can be summarized that the main benefits of IFRS adoption include comparability of financial statements provided by the companies worldwide, increased transparency in corporate reporting, reliability in financial statements and global investor confidence. On the basis of analysis done through Gray Index of Conservatism on balance sheet for the two financial years 2014-15 and 2015-16, it can be concluded that the IFRS adoption has influenced the values recorded in the various components of balance sheet of Glenmark Pharmaceuticals Limited. There is optimism in values recorded under IFRS and this in turn will increase the reliability of financial statements. The fair value concept under IFRS will enhance the global investor confidence. Finally, it can be said that corporate reporting has reached new heights with the adoption of IFRS.

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