

EFFECT OF TRANSITION TO IFRS ON SELECTED ITEMS OF CONSOLIDATED INCOME STATEMENT – A STUDY ON DR.REDDY LABS

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ABSTRACT:

The International Financial Reporting Standards as acceptable standards for assessment of the financial health of a company across the globe has become inevitable. The Institute of Chartered Accountants of India (ICAI) has announced that IFRS will be mandatory in India for financial statement for the periods beginning on or after 1st April 2011.. The move to IFRS will fundamentally change the reporting methods of financial statements of Indian companies. IFRS will have a significant impact on business across all industries. For entities that are globally active, the differences in financial reporting requirements create extra complications in terms of preparing, consolidating, auditing and interpreting financial statements. Against this backdrop, the prime objective of the present paper is to study the rationale behind introducing IFRS, comparative analysis of Indian Accounting Standards and IFRS, challenges involved in IFRS while adopting it in India. The primary focus is to study the difference in treatment of some selected items of consolidated income statement of Dr.Reddy Labs under IFRS and IGAAP and its impact and consequences on profitability of the concern. It was found that the correlation between Income statement according to IGAAP and IFRS is 0.99 which is a very strong relation as expected in the conversion from IGAAP to IFRS.

Key words: IFRS, CONVERGENCE, IGAAP, IMPACT, PROFITABILITY

Introduction

Economies across the world have benefited by adopting IFRS for financial reporting purposes. It is generally expected that IFRS adoption worldwide will be beneficial to investors and other users of financial statements, by reducing the costs of comparing alternative investments and increasing the quality of information. Companies are also expected to benefit, as investors will be willing to provide more finance. Better financial information for shareholders & regulators enhanced comparability, improved transparency of results, increased ability to secure cross-border listing, better management of global operations and decreased cost of capital are some of the remarkable benefits derived from adopting IFRS.

Indian firms require funds for their expansion plans which are not limited to the economic and political boundaries of India. Indian Firms are acquiring firms outside India also. They are also getting listed

in European and American Capital Markets through raising funds from these markets. One of the major pre-requisites of getting listed on European Markets is preparation of Accounts as per IFRS requirements. A few Indian Companies including pharmaceutical and life sciences industries which have raised funds through the European Capital Markets have started preparing their Financial Statements as per IFRS.

The pharmaceutical and life sciences industry includes a number of sub-sectors, the largest being pharmaceuticals, biotechnology, contract research organizations, and medical devices. The common feature is that each sub-sector develops, produces, and markets a diverse array of products, technologies, and services that relate to human health. Entities in the pharmaceutical and life sciences industry often enter into arrangements to develop drugs, either as a supplier of services, a consumer of those services, or through execution