

Impact of IFRS on Financial Aspects of Indian Telecom Operators: A Conceptual Framework

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ABSTRACT

International Financial Reporting Standards (IFRS) are now to be compulsorily followed by all companies in India. The transition to IFRS-converged accounting standards has already started and is being implemented in a phased manner from 2011 to 2014. This is supposed to bring about global unification of standards for reporting financial information to shareholders, lenders and various other stakeholders.

Implementation of IFRS-converged accounting standards is going to give rise to various changes in reporting which will have an effect primarily on financial statements and consequently on certain aspects of financial management. The implementation of IFRS is going to affect not only the disclosure of profits (income statement) and financial position (balance sheet) but also financial performance and decision making.

The changes in reporting are likely to impact various financial aspects. Such financial aspects include (but are not limited to) revenue recognition, cost and profitability aspects, capital budgeting policies, working capital management, etc. There are a few unique issues and financial implications thereof, related to application of IFRS to telecom industry which need special attention.

This article attempts to propose a conceptual framework for analysing the effect of IFRS (with special reference to IFRS applicable to Indian Telecom Operators) on certain financial aspects of business such as revenue recognition, property plant and equipment, intangible assets, impairment of non-financial assets, outsourcing arrangements, provisions and contingencies, inventory, borrowing costs, etc. The parameters considered for analysis include various drivers of profits, financial position, earning per share (EPS) and Enterprise Value. This framework could also be applied to telecom companies in other countries with suitable modifications / adaptation.

Keywords: IFRS, Impact, Financial Aspects, Indian Telecom Operators, Conceptual Framework

1. INTRODUCTION

There are various forms of business organisations. They have pre-defined financial objectives which include profit maximisation and wealth maximisation. For achieving these objectives, the top management takes various decisions including financial decisions. These decisions are expected to be in the interest of the owners i.e. shareholders. In fact, shareholders' wealth maximisation is considered to be main objective of corporate financial management.

2. FINANCIAL DECISION MAKING

To achieve the two basic objectives as mentioned above, the top management takes various financial and

other business decisions. The financial decisions include:

1. Financing Decision (Capital Structure decision): It relates to raising of funds at required quantum, at lowest cost and at right time.
2. Investing Decision: (Capital Budgeting decision): It relates to investing these funds in various assets to get maximum returns. It is a long term decision.
3. Working Capital Decision: It relates to short term financial decision making i.e. management of current assets and current liabilities. This includes ensuring adequate liquidity at all times and at all levels.
4. Dividend decision: It involves management of profits and their distribution to shareholders.

In financial decision making, “a business proposal which maximises value of the firm is always accepted.” The value of the firm will increase only if present value of the future stream of *net cash benefits* is more than initial *cash investment*. Thus, cash inflows and outflows are more important than accounting profits. To select the best proposal, we need to arrive at present value of future cash flows. Therefore, time value of money plays an important role in financial decision making. Due to introduction of IFRS / Ind AS, time value of money which is extensively used in financial decision making will now also be used while applying a few Ind AS. (e.g.: Refer to Ind AS -16: Property, Plant & Equipment). Such financial concepts are now also going to be used in application of these accounting standards, thus bridging the conceptual gap between financial decision making within the company and reporting of financial results to stakeholders and others.

3. FINANCIAL DECISIONS AND FINANCIAL STATEMENTS

The financial performance of an entity is reflected in its financial statements. The financial statements also reflect the impact of financial decisions on income, expenses, assets and liabilities. For the same reason, financial statements are mainly used in financial decision making by various stakeholders such as investors, financiers and creditors.

As per Ind AS, a complete set of financial statements comprises of balance sheet including statement of changes in equity; an income statement i.e. profit and loss statement; a cash flows statement and notes with significant accounting policies and other explanatory information. It further includes a balance sheet as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

A statement of Profit & Loss would present the financial performance in the form of profit earned or loss sustained by the company. The financial performance is generally assessed on the basis of OPBDI&T, PBIT, PAT and EPS. These parameters indicate the profitability of the enterprise, whereas Balance Sheet indicates the financial position of an enterprise. It consists of the statement of assets and liabilities. The excess of assets over outside

liabilities indicates increase in the wealth (“net worth”) (as per books of account) of shareholders and vice versa.

The elements appearing in above statements are affected due to changes in accounting policies through accounting standards and resultant treatment. A change in accounting standard / policy brings about changes in above statements. These changes and adjustments therefor will impact financial decision making and thus, various aspects of financial decision making are going to be largely affected by implementation of IFRS.

The effect of managerial decisions on a company’s profit is reflected in the Profit & Loss Account, on financial position in the Balance Sheet, and on cash in the cash flow statement. The importance of these statements cannot be over-emphasized since major strategic / financial decisions are taken on the basis of these statements.

The financial statements are subject to professional and / or legal regulation. There are professional accounting bodies which govern the accounting practices in a country.¹ The Institute of Chartered Accountants of India largely regulates the accounting policies, principles and practices in India. For strict control and for benefit of public at large it has issued various Accounting Standards and Guidance Notes from time to time. Now India companies need to adopt IFRS / Ind AS in a phased manner.

It is pertinent to note that changes in accounting standards / accounting policy would bring about changes in company’s profitability and financial position, which has to be accepted by the management as an external unavoidable phenomenon. Therefore, the impact of Accounting Standards / IFRS on financial statements and consequently on financial decision making is required to be critically appraised.

There are some noteworthy features of Indian GAAP;

- a. Application of accrual concept without consideration of ‘Time Value of Money’;
- b. Emphasis on ‘True and Fair’ view and not on ‘Faithful Presentation’;
- c. Use of estimates while preparing the accounts which may not be based upon scientific methods;
- d. Use of historical cost instead of fair value;

So far, the existing policies, principles and practices have been considered satisfactory, in spite of the above limitations. But the compulsory adoption of IFRS by Indian companies (in a phased manner) has challenged

fundamental concepts and assumptions underlying Indian GAAP.

3.1. The Financial Aspects

Consequent upon adoption of IFRS, changes in particular accounting policies would bring about changes in various financial aspects(parameters considered for analysis) which include profits, financial position, earning per share (EPS) and Enterprise Value.

3.2. The Statement of Purpose & Status:

This framework proposes certain concepts and parameters to analyse the effect of IFRS on financial aspects of Indian telecom operators. The purpose of the proposed framework is:

1. To assist external users of financial statements to understand the link between various IFRS applicable to Indian telecom operators and their financial decision making;
2. To assist corporate management of Indian telecom operators to understand the impact of IFRS on financial decision making;
3. To propose a direction and further scope of study of 'impact analysis' of IFRS on financial aspects / financial management of Indian telecom operators;
4. To identify and / or to explore possibilities of further changes in financial reporting requirements in the light of above impact analysis.

The proposed framework is presumed to be flexible and adaptable and will be subject to changes from time to time based on the experience of actual implementation and empirical findings about the impact thereof, since IFRS implementation is still at the nascent stage in India.

3.3. Scope

The framework deals with:

1. The analysis of relevant IFRS as applicable to telecom operators;
2. Analysis of shifting from AS to IFRS in the Indian context;
3. Impact of application of IFRS on certain selected financial aspects of telecom operators.

4. INTRODUCTION TO PRESENT POSITION OF FINANCIAL STATEMENTS IN INDIA: (PRE-IFRS)

The financial performance of an entity is reflected in its financial statements. The objective of financial statements is to provide information about financial position which is included in the balance sheet, financial performance which is included in Profit & Loss Statement and cash flows of an enterprise that is useful to a wide range of users in making various economic decisions. Thus there is a reflection of financial decision making in financial statements. IFRS, a comprehensive and global set of accounting standards will now be mandatorily applied for preparation of financial statements in India. Therefore it is necessary to analyse the impact of IFRS on financial statements and consequently, financial decision making.

Impact of IFRS on financial decision making

4.1 Salient Features of IFRS

1. IFRS is a principle based approach. It mentions principles rather than detailed rules. It gives more scope / discretion to management in selecting a particular accounting policy. Thus application of IFRS would lead to substance over form.
2. Fair Value Accounting: There are two approaches i.e. historical cost based approach and fair value accounting. So far In India, companies have been following historical cost based approach; however under IFRS, fair value accounting is also allowed to be adopted. Fair value accounting is specifically applicable to assets and liabilities. After the 3G spectrum auction in India, many of the telecom operators are heavily ridden by debt. In such cases, fair value accounting would play a critical role in respect of assets and liabilities.

Although Fair Value accounting is one of the main features, it is observed that it is still not used widely by the enterprises. According to a survey conducted by KPMG and Keitz (2006), from 15 countries, 2% of the companies actually applied fair value accounting to property, plant and equipment in 2005. The same survey indicated that, in relation to intangible assets, fair value accounting is not applied by the companies being surveyed.

3. **Statement of Comprehensive Income:** It will include unrealised gains and losses arising out of fair

value accounting of assets and liabilities. It would also be called as 'other comprehensive income'. If a company applies IFRS, then a major change would be in the form of fair value accounting, which if adopted, will affect assets, liabilities and equity. The ultimate profit would also be affected due to comprehensive income. If most of the items in the balance sheet are revalued then the unrealised gain or loss would be routed through profit & loss account in the nature of comprehensive income.

4.2. The Telecom Sector in India

The telecom operators' business has some unique features. The Indian telecom industry has recently undergone tremendous growth as well as transformation. This is evidenced by increase in number of subscribers, teledensity and overall revenue, change in technology, government support for penetration of these services etc. Since the private players have already heavily invested in this sector post liberalization, now they are anxious to devise strategies to earn proper returns on their investments.

Some of the Indian telecom operators are listed companies while others are not. Over a period of time IFRS will apply to all these companies. The alphabetical listings of the Telecom companies are: Aircel, Airtel (Listed Company), BSNL, Idea (Listed Company), MTNL (Listed Company), MTS, Reliance (Listed Company), Tata (Listed Company), Uninor, Vodafone.

The listed telecom companies have already adopted IFRS for the first time with effect from 1st April 2011. Selection of accounting policies at the time of first adoption is critical since would affect financial statements for subsequent years.

4.3. Benefits of IFRS Adoption

The adoption of IFRS will help companies to tap foreign capital markets, enhance comparability and will be especially useful to multinational companies. The implementation of IFRS requires valuations and future forecasts, thus giving rise to use of estimates and assumptions. All this implies that board members would have greater responsibility and accountability. The International Accounting Standards and IFRS consist of a single set of high quality accounting standards which can be used globally. It will be useful in presenting transparent and comparable information in relation to

financial statements. Application of IAS, IFRS will be useful to potential users who need information for taking different types of decisions. There are 9 IFRS and 29 IAS along with interpretation notes (IFRIC 1 to 19).

5. IFRS ADOPTION AND TELECOM OPERATORS

There are a few specific IAS which will apply in a unique way to telecom operators. We propose that the framework to analyse the impact of IFRS on financial aspects and corporate financial management of Indian telecom operators should include a critical review of following IAS (Accounting Under IFRS: Telecoms, January 2010 KPMG IFRG Limited)–

<i>Accounting Issue</i>	<i>Relevant IAS / Ind AS</i>
Revenue	18
Capacity Transactions	16, 17, 18, 38
Intangible Assets	38
Property, Plant & Equipment	16
Borrowing Costs	23
Impairment of non-financial assets	36
Leases	17
Financial Instruments	39
Provisions & Contingencies	37
Interests in joint ventures	31

In our opinion, a few more Ind AS would also affect telecom operators and have a specific financial impact such as: Inventory (Ind AS-2), Depreciation (Ind AS-16), and Earning per share (Ind AS -33).

5.1. Some Illustrations of Issue and their Impact

While it is beyond the scope of this article to describe exhaustively the various issues arising out of IFRS implementation by telecom operators in India, some illustrations are given below to enable appreciation of some of these issues.

5.2. IAS – 2 / Ind AS 2: Inventories

While according to AS-2, to arrive at cost of inventories, selling and distribution cost shall be excluded whereas according to IAS-2, only selling cost shall be excluded i.e. distribution cost shall be part of inventory valuation. In case of telecom service providers distribution cost is

vital.

Impact: This will affect the cost of inventory, resulting into change in reporting of profits (amounts will vary) and consequent impact on certain ratios such as EPS, ROI etc. This may also be useful in reporting better cost competitiveness and may provide justification of pricing policies if prices are controlled and for domestic or international transfer pricing.

5.3. IndAS – 16 (related to Depreciation Accounting)

Since IFRS is principle based, the management can decide its depreciation policy. Most of the telecom operators provide depreciation on straight line method on the basis of estimated useful economic lives of assets. The companies normally have their own estimates of economic lives of the assets. Due to this, different companies estimate different useful lives resulting into differing depreciation for same class of assets. (E.g.: Idea Cellular Ltd. In its Annual Report of 2010-2011, estimates economic life of Leasehold Improvements as equal to period of lease, whereas Bharati Airtel Ltd. In its Annual Report estimates it as period of 10 years or lease period, whichever is less).

In case of intangible assets special attention is required. 'Cost of Rights & Licenses' is amortized over a period of license. Software is amortized over its useful life as estimated by management. Bandwidth or fibre taken on 'Indefeasible Right of Use' (IRU) is amortized over the agreement period.

The depreciation under IFRS is mentioned in IAS-16 (Property, Plant and Equipment). It states that 'Each part of an item of property, plant and equipment shall be depreciated separately'. E.g.: Civil structure and tower installed on it will have different rates of depreciation. Similarly earlier the items below Rs. 5000 were depreciated fully; however after IFRS, in our opinion, the depreciation has to be charged on all items irrespective of their value. The methods of depreciation suggested under IAS-16 are straight line method, diminishing method and units of production method. Under IFRS, an entity is required to depreciate separately the significant parts of Property, Plant and Equipment if they have different useful lives (Component Approach). Any change in the method of depreciation is treated as change in the accounting estimates. It will be reflected in the depreciation charge for the current as well as prospective years.

Impact: Management judgement about economic life of assets and change to component approach will vary

depreciation provisions and reported profits thereby affecting various financial ratios like EPS, ROI, etc. and enterprise value. In as much as net worth will also be affected, borrowing capacity may be affected.

5.4 Ind AS – 18: Revenue

According to AS-9, revenue is the gross inflow of cash, receivables and other consideration arising in the normal course of business whereas IAS – 18 defines it as 'Gross inflow of economic benefits resulting into increase in equity'. Due to such inherent conceptual difference revenue recognition is crucial for telecom operators. AS-9 requires revenue to include all indirect taxes ("gross inflow") whereas as per IAS-9 these taxes (*being 'pass-through receipts'*) will not form part of revenue. In case of an operator if total revenue collected is Rs. 1000 million which includes service tax of Rs. 100 million and trade discount and rebates of Rs. 10 million then for the purpose of IAS-18 the fair value of revenue is Rs. 890 million. In AS-9 it would have been the total amount excluding discount and rebates. The telecom operators' revenue is also affected by Revenue Leakage and Frauds; thus the role of Revenue Assurance and Fraud management pay an important role.

Impact: In such cases there would be a significant reduction in the revenue recognition because of adoption of IFRS with adverse impact on profit, net worth, EPS, and enterprise value, *inter alia*, since this would be a permanent change. However extent of impact needs to be studied on case to case basis.

Further AS-9 does not require any adjustment of discounting to revenue items whereas IAS -9 requires adjustment of discounting if cash flows are deferred. Because of this, telecom operators would be significantly affected since it is a service industry.

The recognition criteria for rendering services under AS-9 allowed both completed service method and also proportionate completion method; however under IAS-9, percentage completion method is compulsory. In our opinion, IAS-18 would require recognition of revenue on percentage of completion method. Even the customer activation fees will now be accounted for as: 'amortization over the expected duration of the customer relationship'.

The telecom operators also offer bundled products consisting of hardware and software or combination of any two or more than two. E.g.: mobile handsets along with (bundled) services, set up boxes, internet connections etc. IAS-18 requires identification and consequent separation

of these items for the purpose of revenue recognition. In practice, the consideration is allocated to each component based on its fair value or fair value of undelivered products i.e. as per residual method. However determining fair value of each component requires complex estimates. One may have to refer to prices of individual component on standalone basis adjusted for volume discounts. For this purpose, to arrive at the value of each component separately, it should have a standalone value to customer and its fair value should be determinable. Thus the revenue from award credits shall be recognized only after the company fulfils its obligations to provide free goods or services. As of today most of the operators recognize service revenue on completion of provision of services however as per IAS-18 it should be on percentage of completion basis i.e. proportionate basis.

Impact: This will also have a material (significant) effect on profits, net worth, EPS, and enterprise value, *inter alia*, since this would be a permanent change.

5.5. Ind AS – 16: Property, Plant & Equipment

The major change as compared to AS- 10 would be towards determining fair value of assets, revaluation of assets from time to time, determining impairment loss and recognizing the changes or reversal of changes / losses through ‘Other Comprehensive Income’ in the Profit & Loss Account.

Due to its broad scope, it is observed that different companies follow different policies. In case of Airtel, under Indian GAAP the group revalued the passive infrastructure assets with corresponding increase in business restructuring reserve, whereas under IFRS these were stated at historical cost resulting in a material difference.

The telecom operators’ main intangible assets are Goodwill, Licenses, Software and “indefeasible right of use” (IRU) bandwidth capacities. The depreciation / amortization of these assets play a key role. Under IFRS, companies are required to depreciate the assets based on their useful life.

5.6. Ind AS – 36: Impairment of Assets

As per Ind AS -36, it is expected that telecom companies assess impairment losses to their assets at the end of each year. They will have to assess internal and external indicators which impair the assets. The impairment losses are measured in terms of individual assets other than

goodwill. Such loss is the amount equal to a difference between carrying amount and its recoverable amount. It may also require telecom companies to identify cash generating units (CGU’s). However considering the heavy infrastructure of telecom operators it will be difficult to identify CGUs.

If we look at the indicators of impairment then out of seven parameters almost all parameters could apply which may not be a case for other sectors. These parameters are:

1. Market Value is declined or the entity has operating or cash losses,
2. Technological obsolescence,
3. Competition,
4. Market Capitalisation,
5. Significant Regulatory Changes,
6. Physical damage of assets,
7. Significant adverse effect on the entity which will change the way the assets are used / expected to be used.

Telecom operators need to consider these parameters thoroughly, to properly assess their impact on its asset position. Impairment losses related to Goodwill cannot be reversed whereas other impairment losses can be reversed.

5.7. Ind AS 33 – Earning Per Share

An entity shall present basic and diluted EPS for profit or loss from continuing operations as well as discontinued operations. As per AS 20 an entity shall present basic and diluted EPS for profit or loss from continuing operations.

Impact: Since disclosure relating to discontinued operations is mandatory, the implications of reporting such EPS have to be considered when taking such decisions.

5.8. Glimpses of Literature: Effect of IFRS on Financial Aspects of Companies: Need for research of impact of IFRS

A lot of literature is available indicating effect of IFRS on financial aspects of companies. Thus adopting IFRS has resulted into major changes in reporting and disclosure requirements in various countries. Accordingly there are regulatory changes too. The adoption of IFRS, resultant regulatory changes shall be reviewed in terms

of its impact on various countries having different set of economic conditions as well as on corporate financial decision making. It requires as a separate study of effect of economic consequences of financial reporting and related regulation. There is a lot of literature available regarding application of IFRS in various countries and its impact on financial statements, financial ratios and related financial aspects.

5.9. Potential Advantages of IFRS to Equity Investors

The adoption of IFRS provides advantage to various stakeholders including equity investors. It is observed that adoption of IFRS reduces cost of processing financial information. It may lead to improving market efficiency and resultant impact on stock price. Further adoption of IFRS offers increased comparability, reduction in information costs and reducing the information risk. (Ball et al., (2006). The adoption of these standards have also shown increase in reported Earnings after Tax. Thus IFRS adoption and adoption of domestic standards will result into differing profit after tax. If profit according to USGAAP is taken as 100 percent, due to differences between national accounting standards, EAT would be 25% more in UK, 3% less in France, 23% less in Germany and 34% less in Japan (Barth et al. 2007). It is a major observation since change in profit will have major effect on financial decision making. The adoption of IFRS helps in comparing financial performances of companies across the globe. Since IFRS will be a single set of standard, the transactions will be treated in the same way across the globe resulting into better comparison for decision making.

5.10. Authors' Comments

While there are foreign investors in Indian telecom companies, Indian telecom operators have also started investing in foreign companies (e.g. Airtel acquired Zain in S. Africa). Implementation of IFRS would benefit these companies. Earlier it was possible for multinational companies operating in various countries that different sales values and profits were reported by applying accounting policies which are in the best interest of subsidiaries or branches, but they might not conform to head office accounting practices. Post IFRS implementation, the information reporting would be globally uniform.

5.11. Economic Consequences of Accounting Quality

International accounting literature provides evidence that accounting quality has economic consequences, such as costs of capital (Leuz and Verrecchia, 2000), efficiency of capital allocation (Bushman and Piotroski, 2006) and international capital mobility (Guenther and Young, 2008). Thus IFRS would increase the transparency, uniformity and would increase the quality of overall accounting.

5.12. Possible Increase in Market Liquidity and Market Capitalisation

Another study conducted by Jermakowicz et al., 2007 has significant observations in terms of market liquidity (range in the magnitude of 3 % to 6 %) and value in terms of market capitalization (2 % to 4 %) to the value of its assets by their replacement value after adopting international standards and its reporting had become mandatory. Unified international accounting principles may enhance investment across the borders due to increased confidence. It may enhance the ability of forecasting profit rate, which will act as potential opportunity for investors.

If uniform financial reporting standards are adopted, there will be more uniformity, reliability and transparency in terms of information availability in market. It will boost the investors' confidence since overall accounting risk is reduced. As the risk is reduced, investors will accept lower rate of return which in turn will result in a lower cost of capital. As far as accounting risk is concerned, it is related to non-understanding of accounting principles and the possibility that financial reporting standards may not be uniformly adhered to. If accounting information is uniform, consistent and transparent then users can use it for decision making thus reducing overall risk, reducing overall expected returns, reduce cost of capital too. If financial statements comply with IFRS then companies will have much better access to world capital markets. The companies can tap the capital from any part of the world having lower cost of capital. In absence of such compliance companies will have to raise capital / debt at higher cost. IFRS implementation would reduce accounting risk thereby reducing cost of equity, cost of debt and thus resultant weighted average cost.

6. AUTHORS' COMMENTS

Post IFRS balance sheet items need to be restated at fair value instead of historical cost. If so restated, it will affect

assets as well as liabilities. It is believed that companies having huge debt will face problems (as most of the telecom companies are having huge debt, which needs to be accounted for at fair value). If these companies have preference share capital, earlier it was treated as a part of equity and now it will be treated as debt, resulting into adverse debt equity ratio. E.g.: Idea Cellular Ltd. in its annual report 2011-2012 has authorized Redeemable Cumulative Non-Convertible Preference Shares of ` 10/- each amounting to Rs. 15000 million against equity base of Rs. 67750 million. If preference capital is issued in future then it would be treated as a part of debt and the debt equity ratio would be affected.

Daske et al. (2008) examined the economic consequences of mandatory IFRS adoption. Their findings are in line with above findings i.e. it has positive effect on marketliquidity, cost of capital, and firm value.

In case of telecom operators in India, there are various intangible assets in their balance sheets. The intangible assets include mainly goodwill, license, and other forms of intangible assets. Thus, for telecom operators, intangible assets play an important part for financial position. Wong and Wong(2005) examined the impact of not amortizing goodwill and identifiable intangible assets with in definitive lives on valuation multiples of New Zealand listed companies. The results indicates significant downward effect on EV/EBIT and PE multiples. Thus a separate study is required to observe effect of above on valuation of telecom operators since intangible assets play an important role.

Capkun et al. (2008) analysed the impact of transition from local GAAP to IFRS in European Union, had a small but statistically significant impact on total assets (including intangible assets), equity, total liabilities.

The implementation of IFRSs would reduce information asymmetry and would subsequently smooth the communication between managers, shareholders, lenders and other interested parties (Bushman and Smith, 2001), resulting in lower agency costs (Healy and Palepu, 2001).

IFRSs also assist investors in making informed financial decisions and predictions of firm future financial performance (Street et al, 2000) and give a signal of higher quality accounting and transparency (Tarca, 2004; Tendeloo and Vanstraelen, 2005). Thus it is expected that financial reporting will be transparent and thus lead to better market efficiency and better stock returns.

7. CONCLUSIONS

Based on the various issues involved as discussed above and based on some of the literature as reviewed above, we recommend the following conceptual framework for analysing the impact of IFRS on financial aspects of Indian Telecom Operators:

Accounting Issue	Relevant IAS / Ind AS
Revenue	18
Capacity Transactions	16, 17, 18, 38
Intangible Assets	38
Property, Plant & Equipment	16
Borrowing Costs	23
Impairment of non-financial assets	36
Leases	17
Financial Instruments	39
Provisions & Contingencies	37
Interests in joint ventures	31

8. CONCEPTUAL FRAMEWORK FOR ANALYSING IMPACT OF IFRS

8.1. Limitation and Scope for Further Research

- This is probably the first attempt to prescribe a comprehensive conceptual framework to assess the impact of IFRS implementation on a specific industry (telecom) within a country (India);
- This framework presupposes that the “case study” method will be used to analyse the impact of IFRS implementation on selected companies;
- This framework is based on the accounting issues described in “Accounting Under IFRS: Telecoms”, January 2010 ©2010 KPMG IFRG Limited.
- The framework needs to be further refined by outlining the relationships amongst the constructs more precisely and comprehensively.
- A more comprehensive literature review is required.
- Further research will be required to assess / ensure generalizability to other industries / other countries.

Accounting Issues Arising out of Application of Ind AS / IFRS		Financial Aspects	Considerations for Assessment of Impact on Financial Aspects and Financial Decision Making
1	Presentation of Financial Statements	<u>Qualitative Aspects:</u>	
2	Inventories	Uniformity	Gaining Stakeholder's confidence
16	Property, Plant & Equipment	Transparency	Effect on Stock returns
	Leases	Comparability	Stock market efficiency
17	Revenue	Comprehensive	Market liquidity
18	Capacity Transactions	Global Applicability	Valuation
16, 17,	"	Legal Support	Market capitalisation
18, 38	"	Relevance	Capital allocation
23	"	Faithful Presentation	International capital mobility
31	Borrowing Costs	Verifiability	Access to world capital markets
	Interests in joint ventures	Understandability	These aspects would primarily affect Capital Structure decisions, Dividend decisions, and Measurement of Performance of the enterprise.
36	Impairment of assets	Information	
37	Provisions & Contingent Liabilities & Assets	asymmetry	
	Intangible Assets and		
38	Applicable IFRS		
1	Presentation of Financial Statements	<u>Quantitative Aspects:</u>	
2	Inventories	Revenue	Revenue
16	Property, Plant & Equipment	Expenses	Depreciation
	Leases	Profits	Profits
17	Revenue	EPS	EAT
18	Capacity Transactions	ROI / ROCE	Net worth
16, 17,	"	Depreciation	EPS
18, 38	"	Net Worth	ROI
23	"	Valuation	EVA
31	Borrowing Costs		Agency costs
	Interests in joint ventures		Stock related financial performance measures
36	Impairment of assets		Valuation of Assets
37	Provisions & Contingent Liabilities & Assets		Valuation of Company
	Intangible Assets and		Weighted Average Cost of Capital
38	Applicable IFRS		Capital structure decision
			Capacity to raise debt
			Various ratios
			These aspects would primarily affect financial decisions such as capital structure design, dividend decisions, capital budgeting decisions and working capital management.

GLOSSARY

- a. **IFRS** – International Financial Reporting Standards
- b. **AS** – Accounting Standards
- c. **IAS** – International Accounting Standards
- d. **GAAP**: Generally Accepted Accounting Practices

- e. **OPBDI&T**: Operating Profit before Depreciation, Interest & Tax
- f. **PBIT**: Profit before Interest & Tax
- g. **PAT**: Profit after Tax
- h. **EPS**: Earning per share
- i. **ROI**: Return on Investment
- j. **ROCE**: Return on Capital Employed
- k. **EVA**: Economic Value Added²

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