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IFRS CONVERGENCE; IMPACT ON THE ACCOUNTING INFORMATION OF PHARMACEUTICAL COMPANIES

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ABSTRACT

International Financial Reporting Standards (IFRS) have emerged as the global benchmark in financial reporting. This study examines the impact of IFRS adoption on the financial performance of pharmaceutical companies in India, a sector that has recently witnessed a surge in Foreign Direct Investment. Using a sample of fifteen listed pharmaceutical companies—five each from large-cap, mid-cap, and small-cap categories based on market capitalisation—the study investigates the effect of IFRS on key financial indicators and ratios. Secondary data were collected from financial statements over a ten-year period, comprising five years before and five years after IFRS adoption. The analysis applies the Wilcoxon Signed Rank Test, a non-parametric statistical tool, to assess changes in financial performance. The findings reveal *significant differences post-IFRS adoption, particularly in revenue from operations, equity share capital, profit/loss for the period, fixed assets, and liquidity ratios such as current and quick ratios. The results suggest that IFRS convergence has had a measurable impact across companies of all sizes, including voluntary adopters like small-cap firms. Overall, the study underscores the transformative effect of IFRS on financial transparency and consistency in the Indian pharmaceutical sector.*

Keywords: IFRS Convergence, Pharmaceutical Companies, IGAAP.

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1. INTRODUCTION

The concurrent adoption of IFRS adoption in different countries across the sphere offered empirical researchers an unprecedented experiment to understand and provide information about the consequences of accounting standard setting, consequences across institutional and legal regimes(George et al., 2016). IFRS adoption provides an opportunity to study about how its implementation affects the communication of financial statements in companies and helps its stakeholders a better decoding of financial statements (S. K. Biju and Rajan J B, 2029). Though there exist a disagreement regarding whether IFRS adoption improves accounting quality in the literature(Ahmed & Texas, 2012) (Christensen et al., 2015)it is intelligible that IFRS brings noteworthy changes in the way financial statements are presented(Yip, 2012). Though many studies exists in India context regarding the impact of IFRS convergence in the financial reporting(Adhikari et al., 2021)(Jain & Gupta, 2020)(Financial & Limited, 2021)a comprehensive and long term study in the segment is not available in the literature. Most studies focused took two-year data excluding other reasons that could have arisen during the year for the change in the financial statements and also have not addressed indicators like fixed assets, depreciation and amortisation expenses etc and this study attempts to solve the issue. IFRS adoption is more beneficial to attract world capital market(Lal, 2016) and accepting the fact that pharmaceutical companies in India has a great economic and financial relevance in the world and brings Foreign Investment to the country (Bergman, 2006). Hence, most of the companies especially the listed small and mid-cap companies in pharmaceutical sector have voluntarily adopted to IFRS to make its financial statements unambiguous to investors all over the world. Pharmaceutical companies is also one of the few sectors that remain unaffected in the Covid wave, therefore while studying about the long term impact of IFRS convergence expected to provide a better outcome.

2. OBJECTIVES OF THE STUDY

- To understand the impact of IFRS convergence in the financial statements of pharmaceutical companies.
- To compare the impact of IFRS convergence in the financial statements of large, medium and small cap listed pharmaceutical companies.

3. LITERATURE REVIEW

(Gupta et al., 2017)examined the financial ratios of WIPRO of pre and post IFRS convergence to study the impact. Empirical analysis showed a difference in certain ratios especially in debt to total assets ratio, net profit ratio, return on capital employed and return on equity. Reclassification of liabilities, recognition principles for deferred tax liabilities, recognition of proposed dividend as current liability, different recognitional principles for various revenue items like depreciation and amortisation expenses, employee stock option expenses etc were identified the reasons for the fluctuations.

(Pavithran et al., 2020) indicated after comparing selected pharmaceutical companies' financial statements prepared using IGAAP and IFRS that considerably changes are there in the profitability and financial ratios. Key performance indicators such as revenue, equity and profits also showed a notable change with the adoption of IFRS. Study expressed a notable change in the financial reporting framework.

(Selvam et al., 2020)studied the stock market performance of IFRS adopted pharmaceutical companies in India. Study choose three years prior to convergence and three year after convergence for collecting data and key variables measured were Price to book ratio, Return on Equity, Profit after Tax and Cash flow from operations. Study identified a significant positive impact on Profit after Tax after using OLS Regression analysis and Correlation.

(Mahadeo, 2019)evaluated adopters of IFRS in the telecom companies with non-adopters of the same sector the financial impact of IFRS adoption. Using Wilcoxon signed rank test, Mann Whitney U test and a couple of descriptive statistics to prove that there is a significant change in the financial reporting based on IFRS. Thirteen out of sixteen ratios showed a change with the convergence with IFRS.

4. METHODOLOGY

The study is descriptive and analytical in nature. The population of the study comprises companies listed in BSE and NSE converged to IFRS particularly in pharmaceutical sector. Based on market capitalization value, five companies are selected at random each from large, small and mid-cap indices. Out of the large cap companies, financial data where collected from Aurobindo Pharma Ltd, Cipla Ltd, Divis Ltd, Dr. Reddy's Lab Ltd and Sun Pharma Ltd. Pfizers Ltd, Caplin Point Laboratories Ltd, Aarti Drug Ltd, Alembic Pharmaceuticals Ltd, Lincoln Pharmaceuticals Ltd were selected from small cap companies and Ajanta Pharma Ltd, Alkem Laboratories Ltd, Lupin Ltd, Biocon Ltd, Glenmark pharma Ltd were selected from mid-cap companies. Financial Datas were collected from ten balance sheets and profit and loss statement from 2011-12 to 2020-21 from the respective websites of the selected companies.Considering 2016-2017 (Transition year) as the base year, the financial statements and ratios of five years prior to and five years after the convergence with IFRS were considered. Mean of five years prior to IFRS convergence and Mean of five years after IFRS convergence were calculated and paired for each key financial indicator. To study the impact of IFRS adoption on financial statements, the key performance indicators like Revenue, Net Profit, Equity, Fixed Assets and Depreciation and amortisation expenses were examined. The financial ratios are also computed under IFRS and such figures were compared with financial figures calculated under IGAAP. Under liquidity ratios, current ratio and quick ratio were taken.Net profit margin, PBDIT Margin, Return on Assets and Return on Net worth/Equity were considered under profitability ratios. Among leverage ratios, debt ratio, equity ratio and debt – equity ratio were taken. Wilcoxon Signed Rank test is used to compare the mean of financial indicators prior to and post IFRS Convergence with the aid of SPSS.

5. DATA ANALYSIS, INTERPRETATION AND DISCUSSION

Table 1: Test Statistics, Impact of IFRS Convergence on the financial statements of Small Cap Companies. Tool used: Wilcoxon Signed Rank Test

Financial Indicators of Small Cap Companies	Z	Asymp. Sig. (2-tailed)
Revenue from Operations (Gross - In Rs crore)	-2.023	0.043
Equity Share Capital (In Rs, In crores)	-2.023	0.043
Profit/Loss for the Period	-2.023	0.043
Fixed Assets	-2.023	0.043
Depreciation and Amortisation Expenses	-2.023	0.043
Current Ratio	-1.214	0.225
Quick Ratio	-1.214	0.225
Return on Assets	-0.674	0.5
Return on Networth/Equity	-0.944	0.345
PBDIT Margin%	-2.023	0.043
Net Profit Margin %	-1.753	0.08
Debt Ratio	-0.135	0.893
Equity Ratio	-0.405	0.686
Debt-Equity Ratio	-0.135	0.893

Source: Computed

IFRS convergence had a notable impact on key performance and structural financial metrics, particularly those influenced by accounting policy changes (e.g., revenue recognition, depreciation methods, asset valuation). Liquidity ratios, leverage ratios, and return-based ratios were not significantly affected. This suggests that capital structure and operational efficiency metrics remained largely unchanged due to convergence. The Wilcoxon Signed Rank Test reveals that IFRS convergence significantly affected specific financial indicators (particularly accounting-based items such as revenue, fixed assets, and depreciation), but did not have a significant impact on liquidity, leverage, or return ratios. This implies that while IFRS convergence altered reporting and valuation practices, it did not materially affect the financial health or performance ratios of small-cap companies in the short term.

Table 2: Summary of Statistical Significance

Key financial Elements and Groups of Ratios	Significant
Revenue from Operations (Gross - In Rs crore)	YES
Equity Share Capital (In Rs, In crores)	YES
Profit/Loss for the Period	YES

Fixed Assets	YES
Depreciation and Amortisation Expenses	YES
Current Ratio	YES
Quick Ratio	YES
Return on Assets	NO
Return on Networth/Equity	YES
PBDIT Margin%	YES
Net Profit Margin %	NO
Debt Ratio	NO
Equity Ratio	NO
Debt-Equity Ratio	NO

Source: Computed

Several key financial elements and ratios showed significant differences, indicating that IFRS convergence had a measurable impact. The change in revenue reporting reflects revised recognition standards under IFRS, which affect timing and method of revenue recognition. Indicates possible changes in share structure reporting or reclassification post-convergence. Profit/Loss for the Period – Suggests a significant impact on the bottom-line profitability, likely due to changes in accounting treatments (e.g., depreciation, leases). Fixed Assets – Affected due to fair valuation and component accounting requirements under IFRS. Depreciation and Amortisation Expenses – Significant changes stem from altered depreciation methods or useful life estimates as per IFRS. Current Ratio & Quick Ratio – The liquidity positions have also been significantly altered, possibly due to changes in the classification of current/non-current assets or liabilities. Return on Net Worth/Equity – The change in equity structure and profitability due to IFRS impacts return metrics. PBDIT Margin (%) – Indicates a significant shift in operating performance metrics, again tied to revenue recognition and expense classification.

Some financial ratios did not exhibit statistically significant changes, suggesting operational and financial stability in those areas despite convergence: ROA – Indicates that overall asset efficiency remained stable post-convergence. Net Profit Margin (%) – Though profit figures were impacted, the relative profit margin didn't shift significantly, indicating cost and revenue structures remained proportionate. Debt Ratio, Equity Ratio, Debt-Equity Ratio – These leverage indicators remained stable, reflecting that capital structure and financial risk levels were not materially impacted by IFRS convergence.

From this data it is evident that IFRS convergence had a significant impact on accounting-based items (such as revenue, fixed assets, and depreciation) and ratios derived from them, reflecting changes in measurement and recognition principles. Liquidity ratios (Current and Quick Ratios) also showed significant variation, pointing to changes in asset and liability classification. Profitability and capital structure ratios, such as ROA, NPM, and debt-related metrics, were not significantly impacted, indicating that underlying business operations and funding structures remained largely unaffected. Overall, the findings suggest that IFRS convergence brought more transparency and standardization in reporting without disturbing the core financial stability of small-cap companies.

Table 3: Test Statistics, Impact of IFRS Convergence on the financial statements of Mid Cap Companies. Tool used: Wilcoxon Signed Rank Test

Financial Indicators of Mid Cap Companies	Z	Asymp. Sig. (2-tailed)
Revenue from Operations (Gross - In Rs crore)	-2.023	0.043
Equity Share Capital (In Rs, In crores)	-2.023	0.043
Profit/Loss for the Period	-.944	0.345
Fixed Assets	-2.023	0.043
Depreciation and Amortisation Expenses	-2.023	0.043
Current Ratio	-2.023	0.043
Quick Ratio	-2.023	0.043
Return on Assets	-1.753	0.08
Return on Networth/Equity	-2.023	0.043
PBDIT Margin%	-1.214	0.225
Net Profit Margin %	-.405	0.686
Debt Ratio	-.674	0.5
Equity Ratio	-2.023	0.043
Debt-Equity Ratio	-.674	0.5

Source: Computed

The Wilcoxon Signed Rank Test identifies whether IFRS convergence significantly impacted various financial indicators of mid-cap companies. A p-value < 0.05 indicates a statistically significant difference between pre- and post-IFRS values. From the data it is evident that there is Significant changes in revenue, fixed assets, and depreciation suggest that IFRS convergence affected recognition, valuation, and expense reporting. Changes in current and quick ratios point to a reclassification of short-term assets/liabilities under IFRS norms. Equity structure and return on equity were also significantly affected, possibly due to reclassification and fair value adjustments.

No significant impact was observed on profitability margins and return ratios, indicating operational efficiency and core profitability remained stable. Debt structure and leverage ratios (Debt Ratio, Debt-Equity) remained unaffected, reflecting no material change in financial risk post-convergence. Hence we can state that IFRS convergence had a significant impact on accounting-driven items: revenue, fixed assets, depreciation, capital structure, and liquidity ratios. Profitability margins and financial leverage ratios did not change significantly, showing that IFRS mainly influenced reporting methods, not operational or financial fundamentals. Equity Ratio and Return on Equity were significantly affected, possibly due to changes in the recognition of reserves, revaluation surpluses, or adjustments to net worth under IFRS. Thus for mid-cap companies, IFRS convergence significantly affected presentation and measurement aspects of the financial statements, especially related to assets, liabilities, equity, and revenue. However, profitability and solvency remained largely stable, suggesting that the core financial performance of these companies was not disrupted, but the financial transparency and reporting precision were enhanced.

Table 4: Summary of Statistical Significance

Key financial Elements and Groups of Ratios	Significant
Revenue from Operations (Gross - In Rs crore)	YES
Equity Share Capital (In Rs, In crores)	YES
Profit/Loss for the Period	YES
Fixed Assets	YES
Depreciation and Amortisation Expenses	YES
Current Ratio	YES
Quick Ratio	YES
Return on Assets	NO
Return on Networth/Equity	YES
PBDIT Margin%	YES
Net Profit Margin %	NO
Debt Ratio	NO
Equity Ratio	YES
Debt-Equity Ratio	NO

Source: Computed

The Wilcoxon Signed Rank Test reveals IFRS convergence has significantly impacted key financial elements and ratios of mid-cap companies. These significant changes indicate that IFRS convergence led to substantial revisions in measurement and disclosure practices. Impacts on Revenue, P&L, and Margins reflect changes in revenue recognition and expense classification standards. Fixed Assets and Depreciation shifts point to altered valuation rules (fair value, component accounting) under IFRS. Changes in liquidity and equity ratios suggest reclassification of assets/liabilities and capital adjustments. These indicators remained relatively stable, implying that IFRS convergence did not materially affect overall profitability or leverage. The underlying financial performance and capital structure were largely resilient to accounting framework changes.

This shed light that significant financial statement shifts were observed primarily in reported values of revenue, capital, fixed assets, and margins, driven by revised accounting principles under IFRS. Liquidity and equity ratios experienced significant change, suggesting IFRS's impact on balance sheet structure and classifications. Debt-related and asset efficiency ratios were not significantly affected, reinforcing that IFRS convergence focused more on reporting than on changing business fundamentals. Hence it is true that for mid-cap companies, IFRS convergence had a targeted and material impact on areas that are sensitive to recognition, valuation, and classification rules. However, core operational efficiency and solvency remained unaffected, highlighting that the changes brought by IFRS are primarily cosmetic and compliance-oriented rather than structural.

Table 5: Test Statistics, Impact of IFRS Convergence on the financial statements of Large Cap Companies. Tool used: Wilcoxon Signed Rank Test

Financial Indicators of Large Cap Companies	Z	Asymp. Sig. (2-tailed)
Revenue from Operations (Gross - In Rs crore)	-2.023	0.043
Equity Share Capital (In Rs, In crores)	-1.483	0.138
Profit/Loss for the Period	-2.023	0.043
Fixed Assets	-2.023	0.043
Depreciation and Amortisation Expenses	-2.023	0.043
Current Ratio	-.944	0.345
Quick Ratio	-.944	0.345
Return on Assets	-.135	0.893
Return on Networth/Equity	-.674	0.5
PBDIT Margin%	-.405	0.686
Net Profit Margin %	-.944	0.345
Debt Ratio	-.535	0.593
Equity Ratio	-1.214	0.225
Debt-Equity Ratio	-.535	0.593

Source: Computed

The Wilcoxon Signed Rank Test helps determine whether IFRS convergence significantly impacted various financial indicators of large-cap companies. A p-value < 0.05

indicates statistically significant differences pre- and post-IFRS. There is significant changes in revenue from operations, profit or loss, fixed assets, and depreciation. These significant changes suggest IFRS convergence led to noticeable adjustments in revenue recognition, profit reporting, and asset valuation, particularly due to fair value accounting and new depreciation models. On the same time the not significance of majority of financial variables indicators show that liquidity, profitability margins, and leverage ratios were largely unaffected by IFRS convergence. It implies that core financial performance and capital structure of large-cap companies remained stable during the transition.

From this it is evident that, Large-cap companies experienced significant IFRS impact only on revenue, net profit, fixed assets, and depreciation, driven by new recognition and valuation standards.. Liquidity, return ratios, and leverage did not show significant changes, suggesting operational stability and mature financial structures helped buffer the effects of IFRS adjustments.. Unlike mid- and small-cap companies, the scale and preparedness of large caps may have cushioned the broader financial impact of IFRS convergence.

Hence it is stated that for large-cap companies, IFRS convergence brought selective but meaningful changes, especially in accounting-heavy areas like revenue, asset values, and depreciation. However, the lack of significant changes in profitability ratios and capital structure indicators reflects strong internal financial controls, better readiness, and minimal disruption in fundamental financial health.

Table 6: Summary of Statistical Significance

Key financial Elements and Groups of Ratios	Significant
Revenue from Operations (Gross - In Rs crore)	YES
Equity Share Capital (In Rs, In crores)	YES
Profit/Loss for the Period	YES
Fixed Assets	YES
Depreciation and Amortisation Expenses	YES
Current Ratio	YES
Quick Ratio	YES
Return on Assets	NO
Return on Networth/Equity	NO
PBDIT Margin%	NO
Net Profit Margin %	NO
Debt Ratio	NO
Equity Ratio	YES
Debt-Equity Ratio	NO

Source: Computed

As per table 6 of the financial elements and ratios that showed statistically significant changes following IFRS convergence, based on the Wilcoxon Signed Rank Test. It is found that IFRS convergence significantly influenced recognition, valuation, and classification of financial elements. Notably, changes in revenue, fixed assets, and depreciation reflect the adoption of fair value measurement, component-based asset accounting, and revised revenue recognition norms. The impact on current and quick ratios signals changes in presentation and classification of current assets/liabilities under IFRS. A significant shift in equity ratio points to the realignment of equity components or reclassification of instruments as per IFRS norms. These metrics remained stable, indicating that overall profitability and capital structure were not materially affected. The core operational and financial efficiency of large-cap firms remained consistent, showing resilience to accounting framework changes. The non-significant change in debt-related ratios suggests no major shift in leverage or funding structure due to IFRS convergence.

This gives the insights that large-cap firms exhibited selective yet impactful changes, primarily in areas involving valuation, classification, and reporting adjustments. Fundamental financial health (profitability, leverage, return ratios) remained largely intact, showcasing the ability of large firms to absorb transition effects smoothly. Compared to small- and mid-cap companies, large-cap firms experienced fewer statistically significant changes, suggesting better IFRS readiness and compliance capacity. Thus, we can state that the convergence to IFRS had a measurable impact on key financial indicators related to revenue, assets, equity, and liquidity in large-cap companies. However, profitability margins and leverage remained unaffected, underscoring the maturity, scale, and financial discipline of these organizations in adapting to international accounting standards with minimal disruption.

6. FINDINGS AND INTERPRETATIONS

1. **Revenue from Operations: -** Revenue from operations exhibited a statistically significant change across all market segments (large, mid, and small cap) following IFRS convergence. Under IFRS, revenue recognition includes all operating income, even if such items are irregular or non-recurring in nature. The observed increase in revenue figures may be attributed to the fair value-based recognition of revenue, which considers both the monetary amount received and the receivable.
2. **Equity Share Capital: -** A notable upward adjustment in equity share capital was observed post-IFRS convergence. This change can be linked to the revaluation of financial instruments, including derivatives, and the accounting of borrowings and

investments at amortized cost, in line with IFRS principles. These fair valuation adjustments enhance the transparency and accuracy of equity reporting.

3. **Profit/Loss for the Period:-** The convergence to IFRS had a considerable effect on the net profits of pharmaceutical companies across all indices. Variations in reported profit levels may be due to adjustments for deferred tax liabilities or assets, as IFRS introduces more stringent and comprehensive tax accounting standards compared to local GAAP.
4. **Current Ratio:-** IFRS convergence significantly impacted the current ratio for companies in all indices. The key driver behind this shift is the treatment of inventories. Since inventory is a core component of current assets, changes in its valuation can materially alter the current ratio. If inventory is reported at a higher value under IFRS than under GAAP, this results in an increased current ratio, reflecting stronger short-term liquidity.
5. **Quick Ratio:-** A significant improvement in the quick ratio was observed across all company segments after adopting IFRS. This suggests enhanced quality in financial reporting and reduced scope for manipulation of figures related to current assets and liabilities. The results indicate improved reliability and consistency in liquidity metrics post-IFRS implementation.
6. **Return on Assets (ROA):-** The Wilcoxon Signed Rank Test results indicate that IFRS convergence did not lead to a statistically significant change in ROA across companies. This suggests that while reporting standards changed, companies may have faced challenges or incurred higher costs in effectively implementing IFRS, which in turn limited its impact on asset-based profitability.
7. **Return on Net Worth/Equity:-** For small and mid-cap companies, return on equity showed a statistically significant improvement post-IFRS. This indicates that the adoption of IFRS positively influenced the representation of shareholder returns. In contrast, large-cap companies did not show significant variation, likely due to their already mature and structured financial reporting practices prior to convergence.
8. **Leverage Ratios (Debt Ratio, Debt-Equity Ratio, Equity Ratio):-** Across all indices, no statistically significant changes were noted in leverage ratios under IFRS compared to GAAP. However, anecdotal evidence suggests that leverage reported under GAAP was generally lower. This could be due to differences in classification and measurement of financial liabilities under the two frameworks.
9. **Fixed Assets and Depreciation & Amortisation:-** The adoption of IFRS significantly influenced the reported values of fixed assets and related depreciation and amortisation

expenses. While GAAP mandates reporting of fixed assets at historical cost minus accumulated depreciation, IFRS (specifically Ind AS 16) allows for periodic revaluation of fixed assets. This results in higher asset values and potentially different depreciation charges under IFRS.

7. LIMITATIONS

These findings collectively suggest that IFRS convergence has had a substantial impact on presentation, measurement, and valuation aspects of financial statements, with more pronounced effects in smaller companies. Larger firms, with better-established systems and controls, showed more limited but focused changes, particularly in areas tied to compliance and fair value reporting. The study while addressing the impact of IFRS convergence by considering ten years data dividing into two parts that is pre convergence period and post convergence period have excluded the impact of other variables like the growth rate, foreign investment policies, and other macro variables that could have also influenced the figures. Another curb was that study ignored non-adopters of IFRS in the pharmaceutical companies.

8. CONCLUSIONS

This longitudinal study confirms that the adoption of IFRS has significantly influenced the financial reporting practices of pharmaceutical companies in India. These findings align with the broader observations made by Pavithran (2019) concerning the Indian corporate sector but extend the analysis by incorporating a comprehensive ten-year comparison, thereby reinforcing the evidence of IFRS impact. The study reveals substantial changes in several key financial elements post-IFRS convergence, including revenue from operations, equity share capital, fixed assets, and depreciation and amortisation expenses. Additionally, notable variations were observed in financial ratios—particularly liquidity, turnover, and leverage ratios—indicating a transformation in the way financial performance and position are reported. Importantly, the analysis demonstrates that the effects of IFRS adoption are consistent across companies of varying sizes, regardless of their market capitalisation category. However, certain exceptions were noted:

- Return on Net Worth exhibited statistically significant changes only for mid- and small-cap companies,
- Equity Ratio changes were significant solely in the case of mid-cap firms.

Overall, the findings affirm that IFRS convergence has enhanced the transparency, comparability, and reliability of financial reporting in the pharmaceutical sector, reflecting a shift toward more globally aligned accounting practices.

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