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Effect Of International Financial Reporting Standards (IFRS) Adoption On Profitability Of Real Estate Companies

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Abstract: *The study aims to examine the impact of IFRS Adoption on the profitability of real estate companies listed on the Indian Stock Exchanges. Data was collected from audited financials of five top listed companies. Mean, Profitability ratios and Grey's Index has been utilized to understand the impact of IFRS. One sample T-test has been used to evaluate the significance of the impact on profitability. The results demonstrated that even though almost all the profitability components have been impacted by the adoption of IFRS in real estate companies, revenue is the major area that was impacted by IFRS adoption. This is mainly due to a change in point of revenue recognition under IFRS. The findings contribute to the accounting theory and literature by indicating that the IFRS adoption has impacted on profitability of real estate companies. The study helps the investors in understanding the impact of IFRS on their investments and the reasons for the pricing of their investments. The findings provide policymakers and standard setters, with analytical and empirical evidence on variation in profitability that may arise due to the adoption of IFRS. This may help the lenders in setting benchmarks related to ratios and profitability limits while lending to companies that have newly adopted IFRS. The accounting information used in the study was extracted from Indian companies. The study might give different results for other countries.*

Key words: IGAAP, IFRS, Ind AS, Real Estate, Impact.

1. Introduction

The globalization has increased the need for widely understood accounting information. The stakeholders ask for wide various information to their crucial decisions. There is no uniformity among the global business houses in applying accounting policies and principles. There are continuous efforts from accounting professionals in India in addressing the diverse accounting practices and bringing uniformity and transparency in the preparation and presentation of financial statements.

There are continuous efforts from accounting professionals all over the world in addressing the diverse accounting practices and bringing uniformity and transparency in preparation and presentation of financial statements. The use of International Financial Reporting Standards (IFRS) as a universal financial reporting language is gaining momentum across the globe.

India adopted International Financial Reporting Standards (IFRS) with effect from financial year 2016-2017. The adoption decision is a change in era of accounting in India. It can be described as a "Green Revolution" in the history

of Indian Accounting. The concept of super secrecy is no more and the world is turning towards transparency by adopting IFRS.

Adoption of IFRS by Indian corporates is going to be very challenging but at the same time could also be rewarding. Indian corporates are likely to reap significant benefits by adopting IFRS. Overall, most investors, financial statement preparers and auditors are in agreement that IFRS improves the quality of financial statements and that IFRS implementation is a positive development for the countries.

There was a major push from the regulatory authority of India for adoption of IFRS by corporates. In India, diversity in accounting is a major challenge in understanding financials. Indian corporates were not able to get the confidence of foreign investors and were not able to raise the capital from foreign market. Burden of Indian corporates in making the financials understandable to foreign investors lessened by adopting IFRS. Foreign investors who are willing to invest in India, need reliable, timely and comparable information. These investors were spending a lot of money, time and efforts to convert the financials prepared under IGAAP so as to make them comparable with IFRS.

By adopting IFRS, investors' confidence has been increased. India, being a fast growing economy, need global standards for expanding business globally. IFRS will benefit the economy by increasing the growth of its international business. It facilitates the maintenance of orderly and efficient capital markets, and also helps in increasing the capital growth, and thereby economic growth. So there are several factors that have contributed to the adoption of IFRS in India. The adoption of International Financial Reporting Standards in India is pillared with challenges among the policy makers, professionals and entrepreneurs in understanding, interpreting and implementing the IFRS. Application of fair value concept, time value of money, employee training, changes in technology and convergence with local laws are some of the major challenges in implementation of IFRS in India. Application of useful life, residual value, accounting of guarantees, commitments, application of revaluation model etc. are grey areas where interpretation and application need management judgment and decisions.

IFRS is more powerful in conceptualising and applying principles like substance over form and true and fair view. To illustrate, it is usual to give interest free loan to employees by the corporates and a motivational favour i.e. interest forgone by the employer, is included in this transaction. There is no provision under IGAAP to record this favour i.e. interest foregone on interest free loan given to employees. Similarly, performance guarantee and bank guarantee is very common among the group concerns and these guarantees are not recorded in books of accounts until settlement of liability if any.

The above mentioned along with many other reasons, resulted in the adoption of IFRS in India with effect for 1st April 2016. The application of IFRS might have significant impact on key financial figures stated in the financial statements. There are numerous studies in European countries on how IFRS has impacted on financial and decision makings.

Bhargav, V., & Shikha, D. (2013). in their study found that the variation in assets and liabilities are due to reclassification among equity and liability classification. The change in revenue recognition concept is another reason for a big difference in revenue recognized under IFRS and IGAAP. The fair value concept of IFRS will improve the quality of disclosures and enhance international comparability. This in turn boosts global investment.

Suchita Shukla (2013), tested for the impact of IFRS adoption on financial activities. The result reveals that there is no significant impact in the adoption of IFRS. However, some of the ratios used to study debt covenant showed changes with the adoption of IFRS.

Chauhan, Apoorva A. (2013), in her study, concluded that there is significant differences in the total liability and equity position mainly due to the reclassification of equity and total liability. The fair value measurement of available for sale investments in IFRS is higher and more transparent disclosures under IFRS.

Rahul Kamath and Ruchir Desai's (2014) results reveal that there is improvement in investment activities and operating activities due to IFRS adoption. However, no improvement or increase was observed in financial risks or debt covenants.

Surajit Das (2017), in their study, concluded that although there is an absolute difference in quantitative indicators, as per IFRS and IGAAP, there is no statistical evidence to prove the difference. The regression analysis shows some indicative results that IFRS can increase the market value by way of foreign investment and acquisitions.

Hector Fabio and Julian (2016) in their study found that prior to the implementation of the IFRS, there is no relationship between the quality of financial information and the idiosyncratic risk of the shares of companies traded on the stock market in the United Kingdom. This finding partially contradicts the first hypothesis of the study that there is no association between opacity and idiosyncratic risk before the implementation of IFRS.

Joseph Aharony, Ran Barniv, and Haim Falk (2014) in their studies examined the impact of IFRS on the value relevance of financial reporting for investors in equity stock. They revealed that security prices and stock returns have an impact from three factors such as valuation of goodwill, Research and development cost, and revaluation of PPE. These factors have different accounting practices across European Countries, which are different from IFRS. The result of the study provided evidence for two factors. They found that incremental value relevance has diminished when the domestic standards deviated from IFRS. The study also found that switching to IFRS made greater value relevance to investors in the year in which IFRS is made mandatory.

JA França (2014), a Brazilian Author, has attempted a comparative study of indebtedness level and return on assets. Deemed cost assumption has been given to Brazilian companies while adopting IFRS. The test revealed that deemed cost did not significantly affect the financial information. The test was done at a 95% confidence level. They did not find any difference between mean values of Indebtedness level and Return on Assets. The values were calculated with and without the effect of deemed cost.

Andre Mora and Antonio's (2016), study was related to the impact of the debt ratio of Brazilian firms due to change in accounting standards. The authors argued that the forecasting ability of accounting information can be achieved not by adopting more challenging standards but by concentrating aspects associated with the preparation and disclosure of information. The authors studied the behaviour of change in debt-equity ratio due to changes in Brazilian accounting standards. They found that 69% of companies had a structural break in the investigated period and 17% showed no change.

Donal B Yard (2011) studied the effect of mandatory adoption of IFRS by European Union on financial analysts' information environment. He used three variables to understand the effect on information environment. The three variables tested are: a) Forecast errors b) Forecast Dispersion c) Number of analysts following information The result

revealed that absolute forecast errors and forecast dispersion decreased under IFRS regime when compared with domestic accounting standards. The study evidenced improvement in analyst information. This resulted due to, a) EU's effort to improve enforcement of accounting standards b) IFRS changes between pre and post mandatory adoption c) Positive externality such comparison raised from adoption of IFRS These results suggested that analyst's information environment improves only when IFRS are enforced substantially and rigorously.

Joseph Aharony, Ran Barnivc and Haim Falk (2014) in their studies " Impact of Mandatory IFRS Adoption on Equity Valuation of Accounting Numbers for Security Investors' examined the impact of IFRS on value relevance of financial reporting for investors in equity stock. They revealed that security prices and stock returns have impact from three factors such as valuation of goodwill, Research and development cost and revaluation of PPE. These factors have difference accounting practices across European Countries, which are different from IFRS. The result of the study provided evidence for two factors. They found that incremental value relevance has diminished when the domestic standards deviated from IFRS. The study also found that switching to IFRS made greater value relevance to investors in the year in which IFRS is made mandatory.

Karol Marek Klimczak's (2011) study intended to analyse how market participants in Poland reacted to adoption of IFRS. The authors used two types of empirical studies to find out the result. First, they studied the price movement in stock exchange in the year of publication of first IFRS annual financial statements. There is no demonstration of abnormal movement in prices of shares even after shifting to IFRS from local GAAP. Second they tested value relevance regressions on financials of companies listed in Warsaw Stock Exchange. The test result was that value of listed companies with IFRS reporting were higher compared to non-adopters. The results indicated that there is no significant premium after the adoption of IFRS. The earning co-efficient for local GAAP holders remain unchanged in post adoption period.

Wen Qu, Michelle Fong and Judy Oliver (2012) conducted a study aimed to examine whether IFRS converged Chinese GAAP has improved the quality of accounting information for investors in the A-share market in China. The objective of the study was to find out whether the value of financial information under IFRS increased compared with domestic standards. They used earning and book value of equity to understand the improvement of quality of accounting during IFRS regime compared to domestic standards. The study was conducted using sample of 309 A-share companies. They argued that 109 earnings per share relative to book value of equity is a stronger explanatory factor of market return. This argument holds good both during pre and post IFRS adoption time. The study suggested that security price decisions of investors are based upon earning released by listed companies in China. Investors are placing more importance on income statement information for their investment decision in post IFRS period. Book value of equity is not a significant factor for investors in investment decisions during post IFRS. It was a significant factor during pre-IFRS period. However, the investors consider book value of equity as a measurement to understand the value of the firm. This made the author conclude that Chinese investor perceive the IFRS as high quality standards compared to China GAAP

Morunga, Maria and Bradbury, Michael's (2012) paper had two objectives. The first is to understand the overall issue of information overload and its impact on reporting and understanding of financial statements. There is dual opinion on information disclosure. Some believe that efficient market hypothesis implies more disclosure. Others believe that information overload impacts information processing strategies and decision outcomes. To achieve this object, writers have developed a theoretical model which distinguishes information characteristics and information

environment. The second objective is designed to provide empirical evidence on reasons for overloaded information. The result of the study says that increase in the size of report is due to the financial section of the report. The financial section increased by 92% and median increase in financial section is 24%. The reason for information load is increase in notes and accounting policies.

Khadijat Adenola Yahaya's (2016) study was about impact of IFRS on key financial ratios. The study revealed the result that at aggregate level, means and medians of account numbers and ratios are not statistically significant under IFRS regime and local GAAP regime. The median of debt ratio is 0.99 in IFRS and 0.99 in NGAAP; for the ROA it is 0.142% and 0.56% respectively; and for asset turnover it is 0.0619 and 0.08 respectively. However, on net profit/loss weighted by total assets in NGAAP – for which the equality of medians is rejected. These results give the conclusion that aggregated accounting information are similar under both the regimes. The test has statistically rejected for equality of variances in IFRS and NGAAP for total assets, current liabilities and total liabilities. This result reflects higher volatility of financial statement figures in IFRS compared to NGAAP.

Adrian Manuel (2014) in his study on the effect of fair value and historical cost on financial information, analysed how financial information might be affected by using different models for valuation of non-current assets. The author intends to provide critical view by reviewing theoretical arguments for and against both historical cost and fair value models. He also intends to develop a simulated practical case showing potential effects on financial information by using fair value and cost model. The result of the study shows that both the valuation models give different values under inflationary condition. Fair value model does not affect income statement but results in higher return on assets compared to the one that is obtained under cost model. However, gain is much more under historical cost compared to fair value model when the asset is sold.

Elisa Menicucci (2016) in her study on fair value accounting and financial crisis reviewed existing literature on fair value accounting. Based on analysis, author observed that there are very little reasons to support that fair value accounting is a major cause for financial crisis. The weakness of fair value model could have introduced unintended volatility and pro-cyclicality during crisis. The general conclusion is that when market is liquid and efficient, fair value accounting is reliable and relevant for corporate valuations and is beneficial to users in decision making process. The fair value accounting helps investors on timely and transparent information. Fair value accounting loses its importance when active market is no longer available.

Yingxin Chen (2009), in his study on substance over form says that use of substance over form concept to related party transactions regulates the manipulations in accounting which the management does. Use of substance over form needs professional knowledge on the part of accountants. Application of concept gives an accounting choice for the accountants and some of the enterprises use this concept for manipulating profit. There is a diversity in related party transactions and it is important for accountants to make correct judgement. It creates moral education on the part of accountants. Application of accrual concept and substance over form may conflict with each other.

Shufen Deng (2013) has concluded the following in his study:

- a) Earning management has intensified since the adoption of IFRS in Europe because it provides greater flexibility of accounting choices.
- b) IFRS generally has improvement in value relevance due to its requirement of more and better information disclosure and the use of fair value measurement.

- c) The conclusion is that timely loss recognition is generally but not absolutely positively associated with the adoption of IFRS
- d) Accounting quality does not have much progress with respect to earnings management after the EU's adoption of IFRS. e) Adoption of IFRS has a favourable impact in many instances on cost of capital.

Devalle, Alain, Onali, Enrico, Magarini, and Riccardo (2010) in the article 'Assessing the Value Relevance of Accounting Data after the Introduction of IFRS in Europe' studied the relationship of book value and market value under IFRS. The study has objectives of value relevance on net income, and the other comprehensive income and the impact of financial crisis on value relevance of net income and other comprehensive income. They used F Test for verification of the use of the concept of comprehensive income instead of net income. The test revealed that the concept of other comprehensive income significantly increases the power of value relevance models. As far as the second objective is concerned financial statements of the years pre financial crisis show that comprehensive income is not so value relevant as in the post- financial crisis.

Gassen and Sellhorn (2006) studied the determinants and consequences of IFRS adoption. The study found that IFRS adoption was influenced by size, global exposure and dispersion of ownership. The study found out that IFRS adopted firms have persistent and conservative earnings. Lower information asymmetry is another advantage to the German equity market

Goodwin and Ahmed (2006) in their research paper examined the impact of IFRS impact on small, medium and large sized firms. Study found that most of the small firms are unaffected by Australian IFRS, and even those affected had few major changes. Study has also revealed that small firms had experience of increase in their net income and equity. These are primarily due to the reason of increase in tax advantage and deferred tax effect recognized and reversal of goodwill amortization. The study concluded that Australian IFRS did not put a material effect on total assets and liabilities of tested firms.

Perramon and Amat (2006) have studied the impact of IFRS on income statements of non-financial listed companies. The result confirmed that IFRS influenced the income statement of selected companies due to the reason of application of fair value concept for financial instruments and the application of new rules for valuation of goodwill. Cost capitalization, post-employment benefits affected materially affected net profit. Final conclusion implies that adoption of IFRS may influence profitability of Spanish companies.

Ioannis, Paul and Lisa (2012) in their study on Transition to IFRS and the Value Relevance of Financial Statements in Greece found the following: they suggested that investors are lacking in information which is relevant for investment decisions. IFRS brings comparability and reduces cost for bringing information. Again there is a reduced risk for investors while getting information. They suggest that Greek market participants do not change their attitude towards the overall value relevance of book values. They consider balance sheet (income statement) numbers under IFRS more (less) value relevant than under Greek GAAP, and they value the information contained in reported adjustments within the transitional reconciliation statements.

Boyle, G., Clyne, S. and Roberts, H. (2006) in their article named as "Valuing Employee Stock Options: Implications for the Implementation of NZ IFRS 2", analyzed the impact of exercise of stock options on implementation of IFRS. They have observed that more often employee stock options are exercised earlier than are supposed to be. Early exercise could be beneficial and optimal from employee's point of

view. Early exercise is premature from market prospective and it is less costly than it is supposed to be if exercised on maturity date. This exercise by employees is a sensitive issue. Market based models for measuring employee stock option ignore these characteristics. They also observed that quantification of these characteristics is subjective and provides platform for manipulation.

2. Theoretical Framework and Hypothesis Development

Cynthia (2009) stated that conversion from U.S. GAAP to IFRS is a heavily discussed topic in the corporate world. Expected benefits of adoption include reporting consistency, enhanced global competition and improved financial reporting transparency. Many countries worldwide have already adopted IFRS. Others are closely examining its effects before adoption, not only from an economic perspective but also from a reporting quality position. “There is demand for more academic research that provides insights into questions of interest to accounting standard setters,” stated Mary Barth (2000) , an original member of the International Accounting Standards Board (IASB), as she embarked on her appointment.

Seven years later, she continued to recognize the importance of academic participation in the standard-setting process: “Research is particularly valuable to standard setters because it is unbiased, rigorously crafted, and grounded in economic theory, as is the conceptual framework” (Barth 2007). In India, IFRS being a new subject, only a few studies has been conducted at basic level. A few articles have been published and that too at basic level. The investors, regulatory authorities and implementers of IFRS need a detailed investigation and research on every aspect of IFRS. There are ample opportunities for researchers in India embracing both qualitative and quantitative aspects of IFRS.

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2.1 Objectives

Based on research gap, the following objectives were drawn for the present study:

- a) To understand which are accounting figures impacted by the adoption of IFRS by real estate companies.
- b) To find out is that the IFRS impact is significant or not.

2.2 Hypothesis

To test the objective the following hypothesis has been drawn:

Null Hypothesis: Real estate companies are not experienced the significant impact of IFRS on profitability

Alternative Hypothesis: Real estate companies are experienced significant impact of IFRS on profitability

3. Research Methodology

This section describes the variables, financial figures, statistics method of data analysis used in the research. The main purpose of this study is to demonstrate the impact of IFRS adoption on profitability figures and ratios of top listed real estate companies in India. The analysis has been carried on five top companies listed in Indian Stock Exchange i.e

- a) DLF Ltd
- b) Omaxe Ltd
- c) Prestige Estates Projects Ltd
- d) Sobha Ltd
- e) Unitech Ltd

DLF Ltd

DLF Limited is the largest real estate developer in north India. It was founded by Chaudhary Raghvendra Singh in 1946 and is based in New Delhi, India. The primary business of DLF Ltd is the construction of residential, commercial and retail properties. DLF has bagged several awards such as commercial building project awards, Developer of the year, Export award for outstanding performance and so on.

Prestige Estates Projects Ltd

Prestige Estate is a one of the leading and successful real estate developer in south India. It is located in Bangalore and founded by Irfan Razak. The Prestige Group is the only developer from Bangalore to receive the reputed FIABCI award for their software and residential facilities. It was rewarded as e “Admired Brand of Asia” in the category of Real Estate while Mr. Irfan Razack was chosen as the “Admired Leader of Asia.

Sobha Ltd

Sobha Limited is an Indian multinational real estate developer headquartered in Bangalore, India. It works in the business of construction, development, sale, management and operation, townships, housing projects, commercial premises and other related activities. SOBHA epitomizes "passion at work" in totality. The diversified portfolio of SOBHA is well-supported by a visionary leadership team which not only sets a compelling vision but is also responsible for operative management of the business.

Unitech Ltd

Unitech Limited is India's second largest real estate investment company, and has recently claimed to be the largest real estate builder in the country. The company is based in New Delhi and ranks 1484, in Forbes Global 2000 listing of the top 2000 public companies in the world by Forbes magazine, 32nd in India. It was rewarded with ISCF award during 2008 and Star Realty Lords of the Land during 2011-12.

For the purpose of analysis, there is a need for financial statements prepared under both IGAAP and IFRS for the same period of time. This data needed for comparison is available only during transition period which is from 1st April 2015 to 31st March, 2016. Hence, profit and loss account for the year ending 31st March, 2016, both under IFRS and IGAAP has been used for comparison.

For understanding the relationship, comparison has been made following figures for income statement under IGAAP and IFRS:

- Sales
- Operating Expenses
- Finance Charges
- Depreciation and Amortization
- Employee Benefit Expenses
- Income Tax
- Net Income
- Retained Earnings

The accounting figures of five real estate companies under IFRS and IGAAP are averaged using simple arithmetic mean for analysis. The IFRS impact on profit and loss account has been arrived by comparing increase in mean under IFRS with mean IGAAP. The increase or decrease has been presented by percentage.

The impact under IFRS further analysed using following ratios which are relevant while analysing profit and loss:

Earning per Share = $\frac{\text{Earning Available to Ordinary Shareholders}}{\text{Number of Equity Shares}}$

Net Profit Ratio = $\frac{\text{Net Profit}}{\text{Sales}} \times 100$

Operating Expense Ratio = $\frac{\text{Operating Expense}}{\text{Sales}} \times 100$

Capital Turnover Ratio = $\frac{\text{Sales}}{\text{Capital Employed}} \times 100$

Working Capital Turnover Ratio = $\frac{\text{Sales}}{\text{Working Capital}} \times 100$

Return on Assets = $\frac{\text{Net Profit}}{\text{Total Assets}} \times 100$

Return on Equity = $\frac{\text{Net Profit}}{\text{Equity}} \times 100$

Gray's Conservation Index has been used to convert the accounting data to bring them to comparability. The comparability Index based on Grey's Index is arrived as under:

$$1 - \frac{\text{IFRS Number} - \text{IGAAP Number}}{\text{IFRS Number}}$$

The Gray's index value larger than +1 indicates that the financial ratio under Indian GAAP is higher than the financial ratio under IFRS, a value lower than +1 suggests that the financial ratio under Indian GAAP is lower than the financial ratio under IFRS. The index value of 1.00 indicates no impact from IFRS.

The decision-making process often based on activity ratios used in accounting practice. Apart from these, statement of financial position and statement of financial performance provides useful information for decision-making. In this paper, profitability ratios, and figures, have been calculated based on figures obtained from the financial statements that are constituted according to the two sets of accounting standard namely, Indian GAAP and IFRS.

The study focused on the comparison of profit and loss account prepared under IGAAP for the year ended 31st March 2016 and profit and loss account prepared under IFRS 31st March, 2016

The data has been analyzed by comparing mean of important account numbers. Percentages have been used for the presentation of the result. One sample t-test has been used to understand the significance level of impact of IFRS adoption. Statistical software SPSS 24.0 has been used for the running t-test.

5. Results and Discussion

Revenue accounting and profitability is always a debate in the case of real estate business. Debate is about when to recognize the revenue i.e. over a period of time or at the time the when sale happens. Secondly, there is a difference of opinion in capitalization borrowing cost incurred for buying of land which is used for construction purpose. Land can be considered as qualifying asset for capitalization of borrowing cost. However, capitalization ceases once the asset is ready for use. The land is ready for use once the builder gets necessary approval for construction activities. Hence borrowing cost should be capitalized after this point. Another view is that land is part of the building and hence, capitalization of borrowing cost continues till the building is ready for use.

It is a business practice in real estate business to accept huge amount of security deposits which are repayable or adjusted after the construction is over. IFRS insists on recording these deposits at fair value, and as such, there is huge impact by way of finance charges. Non-cash consideration is a common feature of real estate business. For example, the construction of road on government land in return for transferable development rights. Under IGAAP these rights are not recognized in the books of accounts.

To understand the impact of IFRS adoption, the following Statement of Profit and Loss has been compared

- i) Statement of Profit and Loss for the year ended 31st March 2016 under IGAAP.
- ii) Statement of Profit and Loss for the year ended 31st March 2016 under IFRS/Ind AS.

Table 1: Real Estate Sector: Comparison IGAAP v/s IFRS (Rs. in Crore)

Particulars	IGAAP	IFRS	Increase (Decrease)	Percentage
Sales	19,453	20,667	1,214	6%
Operating Expenses	19,094	20,283	1,189	6%
Finance Cost	3,603	3,646	43	1%
Depreciation	1,044	979	-65	-6%
Employee Cost	909	894	-15	-2%
Income Tax	538	528	-10	-2%
Net Income	204	293	89	44%
Retained Earning	44,631	40,523	-4,108	-9%

Source: Compiled from audited financial statements

Observations

From the tables 1 and 2, it has been observed that net income has increased by 44% under IFRS when compared to IGAAP. This is evidenced by increase of sales by 6%. The operating expenses have increased by 6% and depreciation charge has decreased by 6%. The retained earnings have decreased by 9%. A huge variation has been observed in the ratios. EPS has decreased from 3.08 to 1.86 in the case of DLF Ltd due to decrease in net profit ratio from 5% to 3% in the case of DLF Ltd EPS has increased from 9.36 to 16.30 in the case of Prestige Ltd. This is substantiated by increase of net profit ratio from 8% to 12% in the case of Prestige Ltd.

Table 2

Real Estate Sector : Comparison of Income Statement IFRS Vs IGAAP

Particulars	Unitech Ltd		Sobha Ltd		Prestige Ltd		Omaxe Ltd		DLF Ltd	
	IFRS	IGAAP	IFRS	IGAAP	IFRS	IGAAP	IFRS	IGAAP	IFRS	IGAAP
Earnings per share (Rs)	-3.44	-3.45	14.1	15.63	16.3	9.36	4.22	4.27	1.86	3.08
Net Profit(Percentage)	-47%	-45%	7%	8%	12%	8%	6%	5%	3%	5%
Operating Expenses Ratio	157%	150%	89%	86%	89%	89%	94%	94%	94%	95%
Capital Turnover Ratio	0.16	0.16	0.59	0.55	0.7	0.56	0.4	0.53	0.21	0.17
Working Capital Turnover Ratio	0.29	0.31	0.91	0.83	3.9	2.51	0.57	0.61	0.88	0.46
Return on Assets Ratio	0.03	-0.03	0.02	0.02	0.04	0.03	0.01	0.01	0.01	0.01
Return on Equity Ratio	0.1	-0.09	0.05	0.05	0.16	0.09	0.04	0.04	0.01	0.02

Source: Compiled from audited financial statement

One Sample T Test

Table 3 : IFRS adoption Impact on Real Estate Sector

Particulars	t	df	Sig. (2- tailed)	Mean Difference	Confidence Interval Of Difference	
					Lower	Upper
Sales	15.67	4	0.000	1.00253	0.82	1.18
Operating Expenses	15.73	4	0.000	0.98496	0.81	1.15
Finance Cost	30.79	4	0.000	1.00094	0.91	1.09
Depreciation	6.34	4	0.003	1.27398	0.71	1.83
Employee Benefit Expense	68.43	4	0.000	1.01933	0.97	1.06
Income Tax	32.80	4	0.000	1.04366	0.95	1.13
Net Income	6.67	4	0.003	1.07008	0.62	1.51
Retained Earnings	33.77	4	0.000	1.04550	0.95	1.13
Earning per Share	6.19	4	0.003	1.07100	0.59	1.55
Net profit Ratio	6.10	4	0.004	1.07671	0.58	1.56
Operating Expenses Ratio	103.53	4	0.000	0.98287	0.95	1.00
Capital Turnover Ratio	10.03	4	0.001	0.96585	0.69	1.23
Working Capital Turnover Ratio	7.71	4	0.002	0.84366	0.53	1.14
Return on Assets	7.80	4	0.001	1.10330	0.71	1.49
Return on Equity	7.77	4	0.001	1.01492	0.65	1.37

Source: Compiled from audited financial statements

Interpretation

The p value of one sample t test is less than 0.05 at 95% significance level for all the accounting numbers tested. Hence, the null hypothesis is rejected and the alternative hypothesis is accepted. It is inferred that IFRS adoption has significant impact on profitability of Real Estate companies.

5. Conclusion, Implication and Limitation:

The study narrates the effect of adoption of IFRS on performance of major real estate companies. From the study and analysis, we can conclude that revenue is the major area which was impacted by adoption of IFRS. This is due to the reason that point of time when the revenue need to be recognised under IFRS is different from IGAAP. Secondly, the component of revenue under IFRS is different from IGAAP. The decrease of depreciation under IFRS also impacted profitability. The study helps the shareholders and investors in understanding true value of investment and which are the financial component impacted by adoption of IFRS.

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