

Ind AS Vs Ind GAAP: Revenue Recognition Differences And Their Impact On Financial Ratios – Evidence From Infosys (2022-2023)

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This article elucidates on the difference between Ind GAAP and Ind AS with respect to revenue recognition. The author has used ratio analysis for calculation of Liquidity and Profitability ratios as these covers the main aspect of the Balance Sheets. Secondary data has been used i.e., Financial Statement of Infosys Ltd 2022 to 2023. This research assist various stakeholders in understanding the logic behind calculation of revenue recognition, its ratio analysis and impact.

Keyboard: Revenue Recognition, Indian Accounting Standard, Financial Statement, Ratio Analysis, IFRS.

1. INTRODUCTION

Financial Statements play a vital role in understand the positioning of Entities or Industries. However, there has been standard guidelines to ensure its uniformity and it must be regulated by a Financial Institutions of that particular country (India practised the India GAAP, United States of America had US GAAP etc). With the advent of globalization, there was a need for Global Financial Language to ease the financial comparability. Hence, with this need IFRS was floated globally with two options i.e., to converge with IFRS or to adopt IFRS. With regards to India, the Ministry of Corporate Affairs declares (February 2015) that India shall converge with IFRS than complete adoption. Therefore, Indian GAAP changed into Ind AS. This convergence was put into practice with the plan of execution in different time period. There was voluntary convergence and mandatory convergence. The voluntary convergence applied to any firm from 1st April 2015; however, the mandatory convergence was split into 3 phases with difference in Capital firm i.e. Phase 1 from 1st April 2016 for firms with 500 crore capital listed firms, Phase 2 from 1st April 2016 for firms with 250 crore capital listed firms and Phase 3 from 1st April 2019 for Banks and Insurance industries.

There are various differences between Ind AS and Indian GAAP. Some of the are as follows:

| Accounting Area | Key Ind AS Impact |
|------------------------------|---|
| Revenue Recognition | 5-step model implementation |
| Lease Accounting | All leases to be capitalized |
| Financial Instruments | Fair valuation of investments with ECL impairment |
| Deferred Tax Accounting | Broader scope by using Balance Sheet approach (Temporary difference) |
| Employee Benefits | Actuarial gain/ loss via OCI |
| Business Combinations | Acquisition method with fair values and no amortization of goodwill |
| Investment Property / PPE | Fair value or revaluation option |
| Foreign Currency Translation | Exchange differences in P&L rather than adjusting/ amortizing |
| Equity Presentation | Separate Statement of Changes in Equity |
| Impairment (Assets/Loans) | ECL for financial asset and impairment testing for non-financial assets |
| Consolidation Rules | Control-based consolidation (Not just ownership percentage) |

Revenue plays a vital role in assessing the Profit and Positioning of the Entity and hence this article focuses on the Revenue Recognition. The process of revenue recognition in Ind GAAP targets to negate the negative or surprise revenue and account all the revenue at all stages i.e., Revenue billing and Revenue Recognition at different stage of business process. As per Ind AS, 5-step model is introduced that includes:

- Step 1: Identify the contract with a customer**

This step elucidates that contract shall exist with inclusion of few key criteria i.e., Approval, Commitment, Prominent Rights, Prominent Payment Terms, Commercial Parameters and probable Collective Activities involved.

- Step 2: Identify the performance obligations**

The clear identification of Goods and Services to be accounted for, shall be determined under the Performance Obligation.

- Step 3: Determine the transaction price**

Transaction price refers to the amount for which the company is expected to be entitled in exchange for transferring the Goods and Services.

- Step 4: Allocate the transaction price to the performance obligations**

Allocation based on the selling prices (stand-alone) for each of the performance obligation.

- **Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation**
Recognition of Revenue for a certain period of time based on, when the asset control is transferred.

Example of Revenue Recognition Ind AS 115 vs Ind GAAP 9

Scenario: A company sells a product worth INR 1,00,000 with a 12-month installation service.

NOTE- Sales include product and service cost

- Product: 80000
- Service: 20000

Working as per Ind AS 115 vs Ind GAAP 9:

| Date | Ind AS 115 / IFRS 15 | Indian GAAP (AS-9) |
|-----------------------|----------------------|--------------------|
| 01-Jan-2022 | 101666.7 | 120000 |
| 01-Feb-2022 | 1666.66 | 0 |
| 01-Mar-2022 | 1666.66 | 0 |
| 01-Apr-2022 | 1666.66 | 0 |
| 01-May-2022 | 1666.66 | 0 |
| 01-Jun-2022 | 1666.66 | 0 |
| 01-Jul-2022 | 1666.66 | 0 |
| 01-Aug-2022 | 1666.66 | 0 |
| 01-Sep-2022 | 1666.66 | 0 |
| 01-Oct-2022 | 1666.66 | 0 |
| 01-Nov-2022 | 1666.66 | 0 |
| 01-Dec-2022 | 1666.66 | 0 |
| Total Revenue in 2022 | 119999.9 | 120000 |
| Round off | 120000 | 120000 |

Business impact of Ind AS 115 vs Ind GAAP 9

| Aspect | Ind AS 115 / IFRS 15 | Indian GAAP (AS-9) |
|---------------------|------------------------------|---------------------------|
| Profit Recognition | Evenly distributed over time | High initial profit |
| Tax Impact | Tax spread across months | Higher tax burden upfront |
| Investors' View | Sustainable earnings | Inflated initial earnings |
| Financial Stability | Predictable revenue | Revenue fluctuates |

There exists a vital business impact in the implication of Revenue Recognition. Hence, the analysis of the same gives a pathway to analyse the implication, further assessing the stakeholders for decision making and gaining the investor confidence as well.

2. Review of Literature

- **Caylor, M. L. (2010)** conducted research on Strategic revenue recognition to achieve earnings benchmarks. His study states that Accounting Standards (IFRS 15/ASC 606) assists in improving the comparability. It also reveals that elaborated version of accounting aspects that helps in slicing and dicing of data and avoid key-earning-benchmarks. The articles elucidates that revenue recognition hold more potential in earnings-management channel than being a meagre choice for technical accounting.
- Napier, C. J., & Stadler, C. (2020) studied on Discretionary revenues as a measure of earnings management. This study is mainly focused on the quality of Revenue Recognition and how it eradicates the abnormal revenue. The author states that, earning management detection is eased with the help if revenue recognition based approach.
- Kabir, H., & Su, L. (2022) focused on studying on how did IFRS 15 affect the revenue recognition practices and financial statements of firms? This study was conducted in Australia and New Zealand, without result of no materialistic impact due to the IFRS 15 but rather an impact on Balance Sheet (example: Contract Liabilities). It further states that, it is important to differentiate the accounting impact vs real performance as both fetch different outputs due to the implication of IFRS 15.
- Piosik, A. (2021) conducted research on Revenue recognition in achieving consensus on analysts' forecasts for revenue, operating income and net earnings. The study states that under IFRS 15, the discretionary revenue increases when there is a lower operating income. The author performs research based on different quarters as this shows a significant difference and thus suggests that stakeholders must pay attention to the adjustments of quarter-end-revenue for the same.
- Kohler, H., Pochet, C., & Le Manh, A. (2021) studied on Auditors as intermediaries in the endogenization of an accounting standard. Here, the author studies the role of the Auditors' as regulatory intermediaries in the IASB. The methodology used by the researcher is a single case study conducted in one large auditing firm. The findings conclude that, auditor must advise and promote the clients for consultations as this will result in prompt implementations of IFRS 15.

3. RESEARCH QUESTIONS

Following are the Research questions based on the study:

- What are the specific Balance Sheet components impacted due to this transitioning of Ind GAAP to Ind AS?
- How does the transitioning from Ind GAAP to Ind AS effect the key Financial Ratios i.e., Liquidity and Profitability Ratio?

4. RESEARCH OBJECTIVES

Following are the objectives for the research based questions identified:

- To analyse and interpret the calculative difference between Ind GAAP and Ind AS via Financial Ratios.
- To examine and compare the Liquidity Ratios under Ind GAAP and Ind AS.

- To examine and compare the Profitability Ratios under Ind GAAP and Ind AS.
- To provide insights to investors and other Financial Statement users based on the output

5. RESEARCH METHODOLOGY

For this article, the author has used Descriptive Analytical Research Design with a comparative approach to evaluate the difference between Ind GAAP and Ind AS. The nature of study is Quantitative in approach as secondary data is taken into consideration to assess the Liquidity and Profitability ratio. Here, the Balance sheet of Infosys (2022-2023) is considered for evaluation of Ind GAAP vs Ind AS with the usage of MS-Excel for calculation.

6. ANALYSIS

Balance sheet of INFOSYS LIMITED AND SUBSIDIARIES Consolidated Financial Statements under Indian Accounting Standards (Ind AS) for the year ended March 31, 2023 was used for the analysis.

Ind AS vs Ind GAAP- Liquidity Ration Analysis

| Category | Ratio | Ind AS | Ind GAAP |
|-----------|--------------------------------|----------|----------|
| Liquidity | Current Ratio | 1.81 | 1.87 |
| Liquidity | Quick (Acid-Test) Ratio | 1.44 | 1.48 |
| Liquidity | Cash Ratio | 0.49 | 0.5 |
| Liquidity | Operating Cash-Flow Ratio | 0.57 | 0.59 |
| Liquidity | Defensive Interval Ratio (DIR) | 140 Days | 140 Days |
| Liquidity | Net Working-Capital Turnover | 4.63 | 4.46 |
| Liquidity | Current-Liabilities Coverage | 0.62 | 0.64 |

Liquidity Ratio: Ind AS Working

| Ratio | Formula (Excel) | Ind AS | Comments |
|-------------------------|--|---|--|
| Current Ratio | Current_Assets / Current_Liabilities | Current Asset: 70,881 Current Liabilities: 39,186 | |
| Quick (Acid-Test) Ratio | (Cash +Marketable_Securities +Trade_Receivables) /Current_Liabilities | Cash: 12,173 current investments ₹6,909 trade receivables ₹25,424 Loan: 289 Other Financial Assets: 11,604 Current Liabilities: 39,186 | Loan is Loan to Employees, under Ind AS, the receivable is classified as a current financial asset and contractually due within 12 months. |

| | | | |
|--------------------------------|--|---|--|
| Cash Ratio | (Cash +Marketable_Securities) /Current_Liabilities | Cash: 12,173 current investments ₹6,909 Current Liabilities: 39,186 | |
| Operating Cash-Flow Ratio | Operating_Cash_Flow /Current Liabilities (end of period) | Net cash generated by operating activities ₹22,467 Current Liabilities: 39,186 | |
| Defensive Interval Ratio (DIR) | (Cash + Marketable_Securities +Trade_Receivables) / (Operating_Expenses/365) | Cash: 12,173 current investments 6,909 trade receivables 25,424 Operating Expense: 116146 | 116146 is a consolidated operating expense (All cash and non-cash operating costs: employee costs, subcontractors, travel, software, S&M, G&A, depreciation, finance cost, etc.) |
| Net Working-Capital Turnover | Net_Sales / (Current_Assets - Current_Liabilities) | Net Sales (Revenue): 146,767 Current Asset: 70,881 Current Liabilities: 39,186 | |
| Current-Liabilities Coverage | Operating_Cash_Flow /Average Current Liabilities (½ [opening CL + closing CL]) | Net cash generated by operating activities ₹22,467 Closing CL = ₹ 39,186 Opening CL = ₹ 33,603 Average CL ≈ ₹ 36,400 | (39,186+33,603)/2=Average CL ≈ ₹ 36,400 |

Liquidity Ratio: Ind GAAP Working

| Ratio | Formula (Excel) | Ind GAAP | Comments |
|---------------|--------------------------------------|--|---|
| Current Ratio | Current_Assets / Current_Liabilities | Current Asset: 70,881 Current Liabilities: 37,944 | (Current Liabilities) 39,186 - (Lease Liability) 1,242 = Current Liabilities: 37,944 Removed Lease liability as IndGAAP does have it |

| | | | |
|--------------------------------------|--|---|---|
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| Current-Liabilitie s Coverage | Operating_Cas h_Flow /Average Current Liabilities (½ | Net cash generated by operating activities ₹22,467 Closing CL = 37,944 | (37,944+32,731)/2=Average CL ≈ ₹ 35,337.5 |

| | | | |
|--|-----------------------------|--|--|
| | [opening CL + closing CL]) | Opening CL = 32,731 Average CL \approx ₹ 35,337.5 | |
|--|-----------------------------|--|--|

Ind AS vs Ind GAAP- Profitability Ratio Analysis

| Category | Ratio | Ind AS - O/P | Ind GAAP- O/P |
|---------------|----------------------------------|--------------|---------------|
| Profitability | Gross Profit Margin | 0.3 | 0.3 |
| Profitability | Operating Profit Margin (EBIT %) | 21.1 | 20.79 |

Profitability Ratio: Ind AS Working

| Ratio | Formula (Excel) | Ind AS | Comments |
|----------------------------------|---------------------------------|---|----------|
| Gross Profit Margin | (Revenue-Cost of Sales)/Revenue | Revenue: 146,767 Cost of Sales: 102,353 | |
| Operating Profit Margin (EBIT %) | EBIT/Revenue from Operation | EBIT: 30,905 Revenue from operation: 146,767 | |

Profitability Ratio: Ind GAAP Working

| Ratio | Formula (Excel) | Ind GAAP | Comments |
|----------------------------------|---------------------------------|--|--|
| Gross Profit Margin | (Revenue-Cost of Sales)/Revenue | Revenue: 146,767 Cost of Sales: 102,353 | |
| Operating Profit Margin (EBIT %) | EBIT/Revenue from Operation | EBIT: 30513 Revenue from operation: 146,767 | 30,513 (operating profit) Rent re-classification (Removed lease from Ind GAAP EBIT) = (lease-principal 1,241 + lease-interest 245 + short/variable rent 92) - ROU depreciation 1,186 = ₹ 392 cr. |

| | | | |
|-------------------|---|--|--|
| Net Profit Margin | Net profit (After tax)/ Revenue from Operations | Net profit (After tax) : 23,989 Revenue from Operations: 146,767 | Net profit (After tax) : 23,989 Revenue from Operations: 146,767 |
|-------------------|---|--|--|

7. FINDINGS

a. Liquidity ratios

- Immediate liquidity also softens: Quick ratio reduces from 1.48 to 1.44 ($\approx 2.7\%$), suggesting slightly lower near-cash coverage of current obligations.
- Cash position is almost unchanged: Cash ratio moves from 0.50 to 0.49 ($\approx 2.0\%$), implying minimal change in pure cash coverage.
- Cash-flow coverage weakens slightly: Operating cash-flow ratio drops from 0.59 to 0.57 ($\approx 3.4\%$), showing marginally lower operating cash coverage of current liabilities.
- Liquidity runway remains stable: Defensive Interval Ratio stays at 140 days under both frameworks, meaning the “days of coverage” is unchanged.
- Working-capital efficiency improves under Ind AS: NWC turnover rises from 4.46 to 4.63 ($\approx 3.8\%$), indicating higher revenue per unit of net working capital.
- Coverage of current liabilities reduces slightly: Current-liabilities coverage decreases from 0.64 to 0.62 ($\approx 3.1\%$), consistent with the small tightening in liquidity.

b. Profitability ratios

- Gross profitability is unchanged: Gross profit margin remains 0.30 under both Ind GAAP and Ind AS, showing no change at the gross level.
- Operating profitability improves marginally: EBIT margin increases from 20.79% to 21.10% ($\approx 1.49\%$ relative increase), indicating a small positive movement in operating profit relative to revenue.

8. DISCUSSION

• Liquidity Ratio

| Ratio | Interpretation |
|---------------------------|--|
| Current Ratio | Slightly weaker short-term solvency can be visible in Ind AS due as current liabilities are higher yet the current assets as unchanged |
| Quick (Acid-Test) Ratio | Due to the higher current liabilities, liquidity is marginally lower in cash of Ind AS |
| Cash Ratio | The is very meagre different in the cash ratio. This is very much due to the difference in the higher current liabilities |
| Operating Cash-Flow Ratio | There is meagre difference due to the higher current liabilities under Ind AS |

| | |
|--------------------------------|--|
| Defensive Interval Ratio (DIR) | Liquidity is unchanged—both frameworks indicate 140 days of expense coverage from defensive assets. |
| Net Working-Capital Turnover | Turnover is higher under Ind AS because net working capital is lower (higher current liabilities), boosting sales per unit of NWC. Turnover under Ind AS is high due to lower net working capital (as current liabilities are higher). This boosts sales per unit of NWC |
| Current-Liabilities Coverage | Cash coverage of average current liabilities is marginally weaker under Ind AS due to higher average current liabilities. Under Ind AS, cash coverage of is weaker marginally for average current liabilities. This is due to higher current liabilities. |

• Profitability Ratio

| Ratio | Interpretation |
|----------------------------------|---|
| Gross Profit Margin | Both of the Accounting Standards display no difference under Gross Profit as they have identical cost of sales |
| Operating Profit Margin (EBIT %) | Due to marginal increase in the EBIT (₹30,905 vs ₹30,513), the Ind AS display a slightly higher operating margin, though they have the same base for revenue. |

9. RECOMMENDATIONS

The author recommends an elaborative analysis with different ratio. Further, the inclusion of the other factors that differs between the Ind GAAP and Ind AS to be included, as they provide a bigger picture in terms of transition quality. In addition, it is also recommended to compare various industries as well as various factors may impact different industries. There is scope for multi country analysis as well in view to the finance professionals. A combination of both primary and secondary data shall act concrete evidence to prove the IFRS implementation quality.

10. LIMITATIONS

The research is limited to data i.e., one Entity and single period. The author has preferred only Liquidity and Profitability ratio to read the impact of Revenue Recognition. This alone does not suffice in ascertaining the transitions effectiveness. There are other factors (i.e., Leases, Financial Instruments, Investment Property etc) that can be considered to proceed further research. The study targets only on the secondary data with no focus on the stakeholder effect. Hence, primary data also plays a vital role to assess the transition implication.

11. CONCLUSION

Based on the research, the author concludes that the transition from Ind GAAP to Ind AS shows a visible difference and brings more obligations and financial effect with respect to Financial Statements. They impact various factors such as cash positioning and business performance. These factors eventually impact the investors' confidence and push the entities/ industries to

strategies more efficiently, be it for investment (for investors) and business process (for entities and industries)

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