ARTICLE 7

Indian Accounting Standards: India's Leap Towards Global Accounting Practices

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Abstract

This Article brings out an overview of the global accounting scenario and explores India's transition from the conventional accounting standards known as Indian Generally Accepted Accounting Principles (Indian-GAAP) to the Indian Accounting Standards (Ind AS) introduced during the financial year 2016-17. It covers an overview of introduction to Ind AS, significant changes introduced in financial reporting after the introduction of Ind AS, an overview of Public Sector Undertakings (PSUs) in Karnataka, challenges faced during this transition, basic provisions of Ind AS and significant issues observed during the supplementary audit process.

Adopting a qualitative approach, the article is based on information collated from the reports of the Comptroller and Auditor General of India (CAG), annual reports of PSUs, financial statements of PSUs and other sources available on the public domain. Supplementary insights were gathered through a review of relevant literature on the Institute of Chartered Accountants of India (ICAI) website to evaluate the depth, challenges, and strategies behind the transition process. The adoption of Ind AS offers distinct advantages such as uniformity in reporting, improved comparability, and enhanced financial clarity. However, the first-time adoption in a few companies posed initial hurdles and complexities in applying fair value measurements such as revaluations, prior period re-statements, etc. The transition from Indian GAAP to Ind AS has been a major milestone for Indian companies, especially PSUs, introducing greater transparency and comparability. While challenges such as fair valuation complexities and capacity building were significant, proactive strategies like early training and technical support helped overcome them.

Keywords

Indian Accounting Standards, retrospective re-statement, opening balance sheet, fair valuation, first time adoption of Ind AS, restructuring, impact.

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7.1 Introduction: An Overview of Global Accounting Practices

Accounting practices across the world have gradually evolved from country-specific systems into a more harmonised global framework. Traditionally, each nation followed its own Generally Accepted Accounting Principles (GAAP), developed in line with domestic laws, business environments, and regulatory priorities. While this approach ensured compliance with local requirements, it created challenges of inconsistency, lack of comparability, and reduced transparency for global investors and multinational corporations.

The drive towards globalisation, cross-border trade, and international capital flows gave rise to the need for uniform accounting standards. To address this, the International Accounting Standards Committee (IASC) was formed in 1973, which later evolved into the International Accounting Standards Board (IASB) in 2001. The IASB issues the International Financial Reporting Standards (IFRS), now widely regarded as the benchmark for global accounting practices. IFRS emphasises principle-based reporting, fair value measurement, and transparent disclosures, ensuring that financial statements are relevant, reliable, comparable, and understandable across jurisdictions.

Over time, many countries, including the European Union, Australia, Canada, and several Asian and African nations, have either adopted IFRS fully or transitioned to their local standards on similar lines to IFRS. The United States of America (USA) follows standards issued by the Financial Accounting Standards Board (FASB).

The International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSAS), which cover both the cash basis and accrual basis of accounting. The accrual IPSAS standards are based on IFRS and also deal with public sector-specific financial reporting issues that are not dealt within IFRS. The UN entities and Specialised Agencies of the UN, like the World Health Organisation (WHO) and Food and Agriculture Organisation (FAO), have adopted IPSAS to enhance the transparency, comparability, and accountability of their financial reporting in accordance with internationally recognized public sector accounting standards.

Today, global accounting practices reflect a balance between uniformity and flexibility. While IFRS is the dominant global framework, some countries retain modifications to accommodate domestic legal, economic, or regulatory needs. Nonetheless, the overarching trend is towards greater uniformity and comparability, thereby enabling investors, regulators, and businesses to operate with confidence in an interconnected world.

7.2 The Accounting and Audit Scenario for Government Companies in India

The mandate of CAG to audit Government Companies under the Companies Act is derived from Section 19(1) of the CAG (DPC) Act, 1971. As per Section 143(6) read with Section 139 of the Companies Act, 2013, the CAG appoints statutory auditors, performs supplementary audit of the financial statements of Government Companies and reports upon such audit reports.

The Institute of Chartered Accountants of India (ICAI) is the standard-setting body in India. Recognising the need to harmonise the diverse accounting policies and practices in India, the Accounting Standards Board (ASB) was constituted on 21st April 1977. Section 133 of the Companies Act 2013 makes it mandatory for Companies to comply with Accounting Standards (AS) issued by the ICAI, and Section 143 mandates the auditor of companies to report non-compliance.

With increased globalisation of Indian Companies, a need was felt to align the financial reporting framework of the country with the global standards, due to which a new set of AS called Indian Accounting Standards (Ind AS) were introduced from 1st April 2016. This was a progressive leap forward in the accounting landscape. Ind AS is largely based on the International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS)(older standards which IFRS replaced in 2001). This includes certain modifications to address India-specific legal and economic environments, thereby enabling Indian companies to meet both domestic regulatory requirements and expectations of the international investors. Ind AS follows a numbering system aligned with corresponding IFRS/IAS standards (e.g., Ind AS 101 with IFRS 1, Ind AS 1 with IAS 1).

7.3 Roadmap for Implementation of Ind AS

The Ministry of Corporate Affairs issued the Companies (Indian Accounting Standards) Rules, 2015 vide Notification of the Ministry of Corporate Affairs dated 16th February, 2015 and a roadmap in this regard, thereby paving the path for a phased implementation of Ind AS commencing from the financial year 2016-17 as depicted in Figure 7.1 below.

Figure 7.1 Phase-wise Implementation of Ind AS
Source: ICAI Publication: Indian Accounting Standards- An Overview of Indian Accounting Standards

As per the roadmap, subsidiaries and associates of these companies were also required to adopt Ind AS. Companies were also encouraged to voluntarily adopt Ind AS since 2015-16, but reversion to Indian GAAP was not permitted thereafter. Entities outside the aforesaid prescribed thresholds continued with the existing AS which are now referred to as Indian GAAP. Although Ind-AS adoption was planned for banking and insurance sectors, its implementation remains deferred.

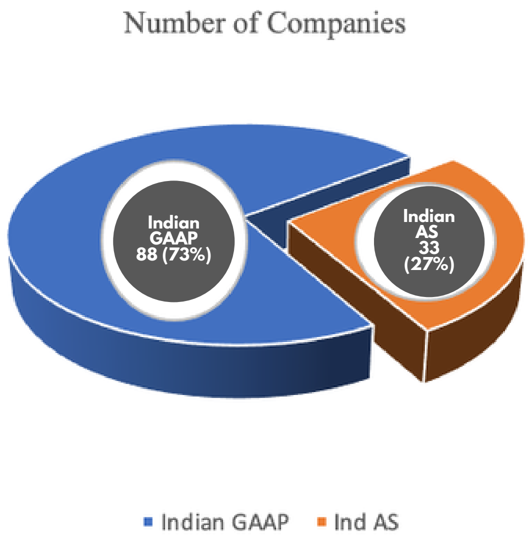
7.4 Significant Changes Introduced under Ind AS

a. **Other Comprehensive Income (OCI):** A separate section was introduced in the Statement of Profit and Loss after 'profit after tax' which records unrealised gains/losses such as revaluation surplus (Ind AS 16), actuarial gains/losses (Ind AS 19), changes in the fair value of equities/derivatives (Ind AS 109), foreign currency translation differences (Ind AS 21), etc.
b. **Recognition of fair value:** Emphasis has been made on fair value measurement over historical cost in critical areas like financial instruments (Ind AS 109), property, plant and equipment (Ind AS 16), business combinations (Ind AS 103), leases (Ind AS 116), investment property (Ind AS 40), etc.
c. **Retrospective re-statement**: As per Ind AS 8 on Accounting Policies, Changes in Accounting Estimates and Errors, any change in accounting policy is required to be done retrospectively by making changes in the balances of the earlier years, as far as practicable. Similarly, all prior period errors are required to be corrected in the year of occurrence by recasting the balances of the earlier years, unlike the corresponding AS 5 which required either a disclosure or a separate depiction in these cases.
d. **Opening Balance Sheet:** Ind AS 101 on First-time Adoption of Indian Accounting Standards mandates the preparation of an opening Balance Sheet at the transition date, by adding a third column in the Balance Sheet to reflect balances as per Ind AS. For instance, companies transitioning to Ind AS in the financial year 2016-17 had to recast their opening balances as of 1st April 2015 by de-recognising non-compliant assets and liabilities and recognising those that met the Ind AS requirements, recast the comparative figures for 2015-16 and then adopt Ind AS in 2016-17. Various exemptions for first time adoption of Ind AS like deemed cost, first time adoption of policies were introduced.
e. **Statement of Changes in Equity:** A new financial statement as per Ind AS was introduced to reconcile equity and other equity components across opening and closing reporting periods.
f. **Financial Instruments:** The financial instruments were classified into three categories (i) amortised cost (ii) fair value through other comprehensive income, and (iii) fair value through profit or loss. This classification was made depending on whether the assets were held for generating contractual flows only, or to sell, or for both. There was also a requirement to make a provision for expected future losses using the expected credit loss (ECL) model even if there was no actual default as on the reporting date.

g. **Property, Plant and Equipment (PPE):** Standard on PPE introduced the concepts of component accounting, liability for decommissioning costs based on net present value, option to choose either the cost or the revaluation model, disclosure of restrictions in title, if any, etc.

7.5 Overview of Ind AS transitions in PSUs in Karnataka and its impact

As per the CAG Report of the Government of Karnataka: Report number 1 of 2025, as on 31st March 2023, there were 121 Government/Government-controlled Companies (SPSEs) in Karnataka out of which 33 came under the purview of Ind AS as described in Figure 7.2 below.



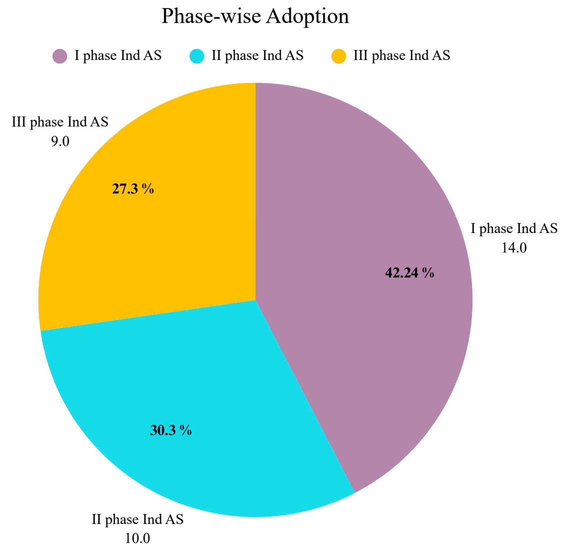


Figure 7.2: Bifurcation of Companies into AS and Ind AS and Statistics of Phase-wise Adoption of Ind AS Companies

Source: Facts and figures from CAG Report: Government of Karnataka-Report number 1 of 2025

7.6 Impact of the implementation of Ind AS

An analysis was made in some of the major PSUs to assess the impact of Ind AS, which revealed the following trends:

i. **Impact on Assets and Liabilities:** 14 test checked State Public Sector Enterprises (SPSEs) experienced changes in the asset and liability values after transitioning to Ind AS. *Six* recorded an increase of ₹2,728.23 crore, *six* recorded a decrease of ₹921.07 crore, while the impact was minimal in *two*. The changes were mainly due to changes in policy for accounting of government grants, changes in policy for deferred tax, fair valuation, etc.

ii. **Impact on financial results:** The impact of the adoption of Ind AS on profits after tax (PAT) was insignificant in one SPSE, and nil in two SPSEs, while the remaining 17 SPSEs reported a net impact of a decrease in Profit after tax by ₹ 9,614.05 crore. The changes were mainly due to adjustments for prior period errors/omissions, deferred tax recognition, revaluation of post-employment benefits, etc.

7.7 A Few Challenges Faced and How They were Overcome

7.7.1 Preparedness for Ind AS

a. Recognising the magnitude of change, the Office of the Principal Accountant General (Audit)-II (PAG- Audit II) proactively conducted workshops in collaboration with ICAI experts as early as March 2016, i.e., a year ahead of the implementation deadline. This strategic preparation ensured that audit teams were technically equipped and confident enough to take on Ind AS audits.

b. Dedicated teams were deputed for Ind AS audits in the first year of transition. Some of the challenges faced by these first-timer teams were in areas such as (i) analysing the Opening Balance Sheets (Ind AS 101) (ii) ensuring correctness of the recognitions, de-recognitions made and accounting policies adopted to align with Ind AS (iii) tracking retrospective re-statements (Ind AS 8) (iv) navigating first-time adoption exemptions (Ind AS 101) (v) assessing the correctness of fair valuations made (Ind AS 16) (vi) ensuring compliance to consolidation requirements under Ind AS 110, 111, 112, and 28 in the Consolidated Financial Statements (vii) difficulty in obtaining data in instances where the preparation of Ind AS financial statements were outsourced (viii) sector specific issues in implementation of Ind AS in power sector companies like capitalisation of assets, tariff related issues involving truing up of revenue, assets held for repair for prolonged period, assessing the impairment, etc. However, through diligent efforts and in-depth engagement with statutory auditors and the management, the teams effectively navigated the initial challenges of Ind AS implementation.

c. This proactive approach led to substantial value addition in the very first year, including revisions to accounts, issuance of comments, and amendments to the reports of the Statutory Auditor. Building on these learnings, the teams continued to make notable progress in the subsequent years. Significant non-compliances in Ind AS were observed and special memos were issued to the Statutory Auditors as per the Standard Operating Procedure for adjudging the performance of the Statutory Auditors of Government Companies for failure to report on such non-compliances.

d. After completion of the certification season, the teams also facilitated peer learning by conducting structured knowledge-sharing sessions on analysis of Opening Balance Sheets and Other Comprehensive Income, assessing fair value, drafting and assessing the impact of Ind AS transactions, thereby institutionalizing best practices across audit teams within the office and across India through experience-sharing sessions.

e. Multiple in-house trainings were held as an ongoing capacity building exercise, to keep abreast of subsequent revisions made to Schedule III of the Companies Act for Ind AS financial statements, radical amendments in AS to align with Ind AS, introduction of new Ind AS over the years such as Ind AS 115 for revenue, Ind AS 116 for leases, etc., thereby ensuring continuous capacity building of the field and headquarters staff.

7.7.2 Restructuring of Audit Offices

In May 2020, the Audit Offices underwent a major restructuring, wherein PSUs were reorganised into different clusters and allocated across various Audit Management Groups (AMGs) of the Office. This scenario posed challenges in ensuring uniform interpretation of Ind AS/AS, coordinating certification timelines, and consistent dissemination of amendments across AMGs. To address these challenges, Office of the PAG (Audit)-II, Karnataka, Bengaluru, took a strategic step by establishing a Technical Support Cell (TSC) as a centralized nodal unit for certification audits. Key contributions of the TSC included; (i) Development of an online repository of reference materials for certifications; (ii) Time-schedule meetings with the management and the statutory auditors to ensure timeliness in submission of accounts, assessment of the preparedness of the companies for Ind AS, and discussion on persistent issues; (iii) Workshops on Ind AS and related amendments. The creation of the TSC significantly enhanced the efficiency, technical accuracy, and effective coordination of certification audits in a decentralized operational structure.

7.8 Few Interesting Issues observed during Ind AS Audits

i. **Ind AS 16- Property, Plant and Equipment:** A company had partially accounted for the revaluation of its thermal stations to the tune of ₹ 1193 crore and had excluded ₹ 888 crore towards hydel stations. The contention of the company that the land did not have any marketable value and was submerged, due to which it was not revalued, was inconsistent with the land valuation reports, which had already taken into cognizance the submergence. Comments were issued.

ii. **Ind AS 23- Borrowing Cost:** As per Ind AS 23, the capitalisation of borrowing costs is required to cease during extended periods in which it had suspended active development of a qualifying asset. A company capitalised interest of ₹ 2.14 crore, though the work was suspended during 2020-22, instead of charging it off to expenditure. Comments were issued.

iii. **Ind AS 114- Regulatory Deferral Accounts:** A power sector company neither recognized the deferred regulatory balances under the previous GAAP nor opted for Ind AS 114 during the transition to Ind AS in 2016-17. However, in 2019-20, it recognised ₹ 543.84 crore as its regulatory income and formulated an accounting policy by belatedly adopting Ind AS 114. Post-transition adoption of Ind AS 114 just for recognition of regulatory income in a selected year was not in order and reflected inconsistency in accounting procedures. The company revised the accounts at the instance of audit and reversed this income.

iv. **Ind AS 36- Impairment of Assets:** As per Ind AS 36, an entity is required to assess, at each reporting date, whether there is any indication that an asset may be impaired. Such indicators include accumulated losses, erosion in net worth, etc. If such indications exist, the entity must estimate the recoverable amount of the asset or cash-generating unit (CGU) and provide for the impairment loss. This Standard is also applicable to companies which are subsidiaries, joint ventures, and associates of the holding companies, which should be tested for impairment annually, irrespective of whether there is any indication of impairment. In one case, failure to carry out impairment testing despite the existence of impairment indicators raised significant concerns regarding the appropriateness of the carrying amount of these investments, amounting to ₹ 2,654.25 crore and consequent non-compliance to Ind AS 36. Comments were issued.

v. **Ind AS 106- Exploration for and Evaluation of Mineral Resources:** The company paid ₹ 38 crore towards retention of the mining lease rights, which qualified as a mining and exploration asset in line with Ind AS 106. However, this amount was treated as an expense in non-compliance to Ind AS 106 and the stated accounting policy of the company. The statutory auditor revised the audit report.

vi. **Ind AS 8- Accounting Policies, Changes in Accounting Estimates and Errors:** The company charged off ₹12.37 crore to employee benefit expenses to rectify an error related to 2019-20, instead of retrospectively re-stating it in the year in which the error occurred. The company stated that the same was not an error and was on account of a change in actuarial estimates, whereas the error had crept in due to incorrect data provided to the actuary. The company revised the Accounts.

7.9 Conclusion

The transition from Indian GAAP to Indian Accounting Standards (Ind AS) has been a transformative journey for Indian companies, particularly Public Sector Undertakings (PSUs). This shift has posed significant challenges ranging from technical complexities in fair valuation and retrospective restatements to operational hurdles in capacity building and restructuring audit frameworks. Looking ahead, navigating the evolving landscape of Ind AS and emerging financial reporting complexities will require a holistic approach, with sustained focus on continuous learning, technological integration, collaborative capacity building, and knowledge sharing that would go a long way in enhancing the quality of audit products of certification audits.

Data Availability

There is no new data associated with this article.

Ethics Statement

This Article meets the ethical guidelines and legal requirements of the country in which it was performed.

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Conflict of Interest

None

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