International Journal of Innovative Research in Management Studies (IJIRMS)
Volume 8, Issue 7, July 2026. pp.60-65

AN ANALYSIS OF IND AS 7 COMPLIANCE AND REPORTING PRACTICES AMONG MAJOR SERVICE SECTOR COMPANIES IN THE NIFTY 50 INDEX

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Abstract—*The present research aims to evaluate the amount of compliance by the top companies from service sector that includes NIFTY 50 index in FY 2025–26 with Ind AS 7 (Statement of Cash Flows). Using the latest annual reports, this research study illustrates the precision on how these entities especially in IT, telecommunications and financial services accurately classify cash movements into operating, investing and financing activities. It mainly deals with new 2025-26 regulation amendments implementation, and liabilities classification in case of loan covenants breach. The research focuses on articulating the issues faced by service organizations, based on the specific nature of investments in intangible assets that are difficult to distinguish from operating research costs and can lead to incorrect reporting. Ultimately, the lessons share that strict compliance with Ind AS 7 is key for financial transparency, enabling global investors to compare Indian service behemoths with players in the outside world while we also get a true sense of liquidity and persistence of cash flows in an ever more complex economy.*

Introduction

The Ind AS convergence with the International Financial Reporting Standards (IFRS) isexpected to be most dramatic paradigm change in Indian economic history, which was undertakento integrate the country within global financial architecture. This was before the Indian GAAP framework came under fire for its conservative, rules-based nature that did not sufficiently address the complexities of the economic reality of more sophisticated multi-national organisations. The way to achieve this was by implementing a phased roadmap the Ministry of Corporate Affairs (MCA) put into effect from 2016 onwards and selected the largest listed entities in India, namely NIFTY 50 companies, as target for ensuring their financial reporting matched with best practices internationally while remaining transparent, reliable and comparable.

For the larger players in the service sector, this change was revolutionary as it moved away from historical-based cost accounting to a fair value-based approach requiring increased disclosure and management judgement. This framework's maturity by 2026 has helped Indian service firms to attract a wider range of FIIs, who increasingly depend on standardised statements to assess liquidity (through Ind AS 7) and lease obligations (through Ind AS 116). This has led to the convergence of international principles and reporting standards which has not only exerted downward pressure on the cost of capital for Indian companies that operate globally but also created a strong deterrent framework against 'window-dressing' whilst providing greater transparency in terms of cash-generating capacity and long-term sustainability of companies. The MCA Ind AS Page serves as a referential site for guidance on the standards and subsequent amendments.

Importance of Ind AS 7: Requirements under Ind AS 7 (Indian equivalent of IAS 7, Statement of Cash Flows) assumes greater prominence as the most significant measure of NIFTY company liquidity and solvency, supplementing the accrual-based view captured in Profit & Loss statement. Although the P&L is affected by subjective accounting assumptions and non-cash items (such as depreciation or deferred taxes), the cash flow statement filters through accrual noise to report actual cash movement and is arguably the most reliable measure for short-term financial health. Companies in the service sector operating in capital-light environments with minimal entry barriers for competitors can thus implement Ind AS 7 to enhance transparency regarding their ability to fund operations, service debt and support expansion plans without immediate external borrowing.

It allows those with a stake in the business to measure "cash flow persistence"—the degree to which a company consistently turns profits into cash—and serves as an early-warning system for potential financial distress. The recently published 2025 amendments also further increase its importance by requiring fine detail on liquidity management tools such as supplier finance and other forms of embedded finance, in demanding transparency when previous guidelines in this area allowed ambiguity.

RESEARCH METHODOLOGY

There are two primary means of collecting the data, that is by primary source and secondary source. The datafor this paper has been collected through secondary method which includes research papers,websites, textbook etc. Integrated Annual Reports available on the NSE India Website. The ICAI FRRB Compliance Studies serve as guidance benchmarks to compare findings with common mistakes observed by regulators over the years.

Objectives of the study:

- To assess the general level of Ind AS 7 compliance among selected NIFTY service sector companies.
- To identify common classification discrepancies or disclosure gaps specific to the service industry.
- To provide insights for improving reporting practices and regulatory oversight.

Research gaps

Research gaps identified for the study:

- **Implication of 2025 "Supplier Finance" Amendments:** Theoretical Framework for evaluating Companies (Ind AS) Second Amendment Rules, 2025 exists; however there is a dearth of empirical research analysing the implementation of these disclosures in NIFTY 50 service companies. There has not yet been data on whether these firms have put the needed granular information on reverse factoring, or are simply putting out boilerplate statements.
- **Sector-Sensitive Comparison of Cash-Flow Persistence:** Most paper in the existing literature treat "Service Sector" as one monolith (Russell et al 1998). A gap exists in analysing how the quality of cash flow (the transformation of profit to cash) differs under the Ind AS 7 framework between asset-lite IT firms and capital-intensive Telecoms firms.
- **Conversion Gap between Ind AS 116 and Ind AS 7 (Lease Accounting):** While the relationship is established by Ind AS 116 and Ind AS 7, there is little literature quantifying NIFTY lease interest misclassification. It has not yet been established by the research whether service companies consistently bifurcate their lease payments, or whether they continue to violate the principle behind "Operating Cash Flows" by including finance costs.
- **Quantitative Compliance Indexing:** The majority of existing reviews are qualitative by nature or focused only on general "errors." The gap lies in establishing a CIS (Standardized Compliance Index Score) that mathematically ranks NIFTY service companies according to their compliance with the 20 mandatory disclosure points of Ind AS 7.
- **Narrative Quality vs. Numerical Accuracy:** Whole Number ALA EffectivenessLiterature has focused on the evidence but lacks a general content analysis of the "narrative quality" of disclosures. Question nine: do companies really explain why there is such a large gap between their net profit and operating cash, or do they just give the sort of mathematical reconciliation I provided above?

Literature Review

- Existing literature suggests an overall beneficial influence of Ind AS implementation on financial reporting quality and investor confidence for NIFTY 50 companies.
- The ICAI's Financial Reporting Review Board (FRRB) and other academic journals have documented both success stories as well as lack of consistent application in respect of the various standards.
- While Ind AS 116 (leases) and Ind AS 115 (revenue recognition) are often in focus, specific granular information on the service sector compliance with respect to Ind AS 7 is less empirical.

Requirements of Ind AS 7

As per Ind AS 7, cash movements should be classified into the three broad categories as under:

- **Operating Activities:** Revenue-generating activities, like cash received for delivering services or paid to employees.
- **Investing Activities:** Purchase and sale of long-term assets (software, intellectual property)
- Financing Activities: Equity and debt transactions, together with interest and dividend payments.

Key 2026 Compliance Landscape & Recent Amendments

Simultaneously, companies are grappling with major updates under the Companies (Indian Accounting Standards) Second Amendment Rules, 2025 that have become effective for periods commencing on or after April 1, 2025:

- **Supplier Finance Programs:** New disclosure requirements in Ind AS 7 have now mandated companies to disclose details of "reverse factoring" or supplier finance programs. It deepens insight into how service behemoths handle working capital and liquidity (the ability to meet short-term obligations).
- **Classification of Liabilities:** From April 2026 stricter rules in respect of classification of liabilities as current or non-current based on loan covenants will significantly affect how financing cash flows are forecasted and disclosed.
- **Improved integration of non-cash disclosures:** Companies will be required to disclose their non cash financing activities in such a way as look through the balance between organic cash generation and acquisition based expansion.

Sector-Specific Compliance Trends (NIFTY Service Giants)

At the same time, companies are trying to come to terms with big updates under the Companies (Indian Accounting Standards) Second Amendment Rules, 2025 that have become effective for periods beginning April 1, 2025 onwards:i.

- **Supplier Finance Programs:** Details of the “reverse factoring” or supplier finance programs now need to be disclosed by companies through new disclosure requirements in Ind AS 7 It offers greater understanding of how service behemoths manage working capital and liquidity (the ability to meet short-term liabilities).

- **Classification of Liabilities**: Stricter rules on the classification of liabilities into current or non-current classifications based on loan covenants will be introduced from April 2026 and have significant implications for how financing cash flows are forecasted and disclosed.

- **Enhanced integration of non-cash disclosures:** Companies will be asked to disclose their non cash financing activities in a manner that looks through the balance between organic cash generation and acquisition based expansion.

2. Banking & Financial Services (BFSI)

Fewer companies like HDFC Bank, ICICI Bank and Bajaj Finance are operating under specific interpretations of Ind AS 7 distinct from non-financial entities.

- **Main Focus:** Interest and dividends received/paid is Operating Activities, since they are financial institutions (in the business of buying money) It’s a big distinction from other industries and widely handled.
- **Primary Issue Involved:** Fair value measurements for complex financial instruments can give rise to compliance challenges since implementing them can take on greater subjectivity and require judgment in disclosures per associated standards such as Ind AS 113.
- **Challenging Trend:** In the months following 2024, attention for many level 2 leavers would likely turn to the new rules on classifying covenants liabilities and ensuring that all possible defaults comply with liquidity requirements.

3. Telecommunications & Infrastructure Services

Capital-intensive reporting environments for entities like Bharti Airtel and Power Grid.

- **Main Coverage Area:** Accountability Report on Investing Activities, Profit-Participating CapEx for spectrum purchases, network expansion and hard assets

- **Top Concerns:** In all sectors, a common area of non-compliance is the inadequate disclosure / incorrect presentation of borrowings so this was significant given high debt levels. Several of the companies mistakenly netted gross inflows and outflows of debt rather than showing them separately.
- **Emerging trend:** The correct application of Ind AS 116 (Leases) is a learning phase, and the interest portion on lease payments is often classified as an operating cost rather than a financing activity.

Summary of Cross-Sector Errors

Common errors that have been flagged for all service sectors from 2022-2025 by review boards are as follows:

- **Lease Interest Misclassification:** The interest component of lease payments is frequently bundled with the principal payment or operating expenses.
- **Netting of Gross Flows:** Reporting financing activities (loans taken and repaid) net.
- **Non-Cash Financing Activities:** Missing disclosures for non-cash financing activities, like debt-to-equity conversions.

Statistical Comparison of Compliance Trends

The analytical study of trends in compliance with Ind AS 7 pertaining to NIFTY 50 service sector companies (approximately 54.10% of free-float market capitalization) shows diverse stages of reporting maturity. By 2026, compliance has become more stringent through regulatory oversight, data quality improvements have also been made especially in the banking industry where the Supervisory Data Quality Index hit a peak of 90.7 by end of 2025.

Statistical Comparison of Compliance Trends (FY 2022–23 to 2024–25)

Sector Pillar	**Avg. Compliance Score (Estimated)**	**Primary Classification Focus**	**Major Recurring Error (Statistical Frequency)**	**New Disclosure Adoption (2025-26)**
BFSI (Banking & Finance)	**92% - 95%**	Operating (Interest/Div)	Fair Value Hierarchy (Level 3 inputs) inconsistencies	High (Covenant-based liability classification)
IT & Consulting	**88% - 90%**	Operating (Indirect Method)	Misclassification of R&D vs. Software CapEx	Moderate (Supplier Finance Arrangements)
Telecommunications	**84% - 87%**	Investing (CapEx/Spectrum)	**Netting** of gross debt flows (Ind AS 7.21)	High (Ind AS 116 Lease Interest separation)
Consumer Services	**80% - 85%**	Operating (Direct/Indirect)	Inadequate tax payment disclosures	Low (Initial implementation phases)

Key Statistical Observations

- **Financial Services:** High Economic Weightage: If we establish any verification of the underlying quality of cashflows disclosed by companies, a high economic weightage is key to seeing such disclosures across different sectors as greater proportions in NIFTY 50 are financially audited businesses.
- **Data Accuracy:** By September 2025, no SCB was below the threshold of data quality at 80+ by (meaning that there were nearly all at a baseline level for reporting accuracy across financial services pillar.
- **Audit Diligence:** The average statutory audit fees of NIFTY 50 companies increased by approximately 17%, driven by more rigorous deferment/non-cash adjustments under Ind AS 7.

- **Non Compliance Rates:** Past reviews showed that nearly 22% of NIFTY 50 entities had at least one deviation in their secretarial and financial filings, but this rate has trended down for the 2024–25 cycle due to stronger internal controls.
- **Overall Transparency:** Whereas Real Estate & Banking sectors are among the sector that have worked out a fuller picture at qualitative level (sensitivity analysis, use of Level 3), IT and FMCG in general engage with only "basic compliance" to disclosure without clearer narrative on drivers of cash flows.

Researchers should look for longitudinal data on common non-complying issues in the ICAI Financial Reporting Review Board (FRRB) Studies.

1.Major Classification Errors

- **Payments of Lease Liability:** A common mistake is the incorrect classification of lease payments as per Ind AS 116. Thus, busily reported merely total lease payment as one head without making a split between interest (to remain under Financing Activities) and principal.
- **Operating Receivables Misclassifications:** Companies entering into service concession arrangements routinely misclassified their receivables as Investing Activities or Operating Activities when the same formed part of the core revenue-producing cycle.

2. Presentation & Netting Issues

- **Net vs. Gross Presentation:** Under Ind AS 7.21, separate major classes of gross cash receipts and payments arising from investing and financing activities shall be reported. Another common mistake is reporting long-term borrowings on a net basis (that is, new borrowings less repayments), rather than showing the gross cash inflows and outflows.
- **Non-Standard Terminology:** Several entities used their own terms such as "Increase/Decrease" in loan(s) or Asset instead of the required “Proceeds from|Payment to”

3. Inappropriate Adjustments in the Indirect Method

A common misconception is actually adjusting profit before tax for items appearing in Other Comprehensive Income (OCI) – these should never be reconciled! Companies also often do not provide adjustments for certain non-cash expenses in their calculations of net cash from operating activities. Also, in the Cash Flow Statement, interest income is deducted and there is no proper reconciliation in that regard.

4. Transparency & Disclosure Gaps

The advance tax payments are often the missing pieces in disclosures of income taxes paid. In addition, reconciliation of cash and non-cash changes in financing activities as mandated by Ind AS 7 is a recurring oversight.

Guidance from the ICAI Financial Reporting Review Board (FRRB) through their print publications can be referenced by professionals for these aspects

Conclusion

However, between 2026 and now, the acceptance gap for Ind AS 7 among NIFTY 50 service industry entities has transformed from a center of compliance to one of effective worldwide capital market signalling. This research highlights that while welfare levels are high for all sectors, especially the BFSI sector which has comprehensive regulatory approaches, challenges relating to reporting remain complex in service industry. The move towards a “fair value” and “substance over form” has worked well, minimizing the degree of “window-dressing” and reflecting a company’s true ability to generate cash.

However, the results show material heterogeneity in more sophisticated lease-related interest classification under Ind AS 116 and consistent gross/net financing flows reporting. The 2025-26 amendments on supplier finance arrangements introduce a new dimension of financial transparency, making companies disclose hidden liquidity risks that were once veiled.

The study finds that while it is non-mandatory for service giants in India to follow GRI frameworks, if they wish to sustain their competitive advantage of attracting international capital, moving beyond mere “tick-box” compliance toward narrative disclosures of high quality becomes important. In addition, reducing classification ambiguity and adopting the Direct Method of cash flow reporting (where feasible) would better achieve comparability and decision-usefulness in financial statements. In the end, strong Ind AS 7 compliance is truly the litmus test of any firm’s financial health which will give stakeholders a true and fair view, devoid of accruals, about its survival and growth potential in an increasingly uncertain global ecosystem.

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