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# A Review of the Effect of Ind as on Accounting Policies and Practices in Public Sector Undertakings

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**Abstract:** *The introduction of Indian Accounting Standards (Ind AS) represents a major transformation in the financial reporting environment of Indian companies. Ind AS, largely converged with International Financial Reporting Standards (IFRS), was introduced to improve the comparability, transparency, reliability, and decision usefulness of financial statements. Public Sector Undertakings (PSUs) occupy a significant position in the Indian economy because of their contribution to infrastructure, energy, banking, transportation, mining, manufacturing, and other strategic sectors. The adoption of Ind AS has consequently influenced the accounting policies and reporting practices followed by these entities.*
*This review paper examines the major effects of Ind AS adoption on accounting policies and practices in PSUs, particularly with respect to revenue recognition, financial instruments, property, plant and equipment, leases, employee benefits, impairment of assets, provisions, deferred taxation, consolidation, and fair-value measurement. The review indicates that Ind AS has encouraged greater consistency and transparency in financial reporting, but its implementation has also increased the complexity of accounting judgments, valuation requirements, disclosures, information-system modifications, and professional training.*

**Keywords:** Ind AS, Public Sector Undertakings, Accounting Policies, Financial Reporting, IFRS Convergence, Fair Value.

## I. INTRODUCTION

Financial reporting plays an important role in communicating the financial position, performance, cash flows, risks, and future prospects of an organization to shareholders, lenders, regulators, government authorities, employees, and other stakeholders. In India, the transition from the earlier Indian GAAP framework to Indian Accounting Standards (Ind AS) represented a significant development in the accounting and financial reporting environment. Ind AS introduced principles that are substantially converged with IFRS while incorporating modifications considered necessary for the Indian economic, legal, and regulatory environment.

Public Sector Undertakings constitute an important component of India's corporate and economic structure. They operate in sectors such as petroleum, power, coal, steel, telecommunications, transportation, financial services, defense production, and infrastructure. Because many PSUs undertake large-scale projects and manage substantial public resources, the quality and transparency of their financial reporting have considerable public significance.

The implementation of Ind AS has affected PSU accounting policies in several ways. Accounting treatments that were previously based largely on historical cost and relatively prescriptive rules have increasingly incorporated principles such as fair-value measurement, expected credit losses, present-value techniques, control-based consolidation, and extensive disclosures. Consequently, the transition has not merely involved changing accounting terminology; it has

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required organizations to reconsider measurement bases, estimates, recognition criteria, internal controls, information systems, and financial-statement presentation.

The effect of Ind AS is particularly relevant for PSUs because many of them possess significant fixed assets, long-term contracts, financial investments, employee-benefit obligations, government-related transactions, foreign-currency exposures, and large infrastructure projects. These characteristics make several Ind AS requirements particularly important for PSU financial statements.

## II. EVOLUTION OF IND AS IN INDIA

Ind AS emerged from India's effort to converge domestic accounting practices with internationally accepted financial reporting principles. The framework was developed by the Institute of Chartered Accountants of India (ICAI) and notified by the Ministry of Corporate Affairs (MCA) through the Companies (Indian Accounting Standards) Rules, 2015.

The implementation was undertaken in phases, with specified classes of companies becoming subject to Ind AS based primarily on listing status, net worth, and other prescribed criteria. The framework subsequently became applicable to a broader range of companies. Certain financial institutions were also brought into the Ind AS roadmap, although implementation for some categories has been subject to regulatory decisions and sector-specific considerations.

For PSUs, Ind AS adoption has significance beyond compliance. Government-owned enterprises frequently have large stakeholder groups, substantial public investments, and extensive regulatory oversight. Therefore, improved reporting can contribute to greater accountability and informed economic decision-making.

## III. EFFECT OF IND AS ON ACCOUNTING POLICIES AND PRACTICES

**Table 1: Major Effects of Ind AS on PSU Accounting Practices**

| Ind AS Area | Earlier/Traditional Practice | Effect under Ind AS | Likely Impact on PSUs |
|---|---|---|---|
| Property, Plant and Equipment | Primarily historical-cost oriented | Greater focus on componentization, useful lives and impairment | More detailed asset accounting |
| Revenue Recognition | Relatively transaction-oriented recognition | Principle-based recognition based on performance obligations | Changes in timing and measurement of revenue |
| Financial Instruments | Limited fair-value and impairment framework | Classification, fair value and expected credit-loss models | More sophisticated valuation and provisioning |
| Leases | Operating and finance lease distinction | Right-of-use asset and lease liability model for lessees | Higher recognized assets and liabilities |
| Impairment | Traditional impairment approaches | Recoverable amount and cash-generating-unit approach | Greater estimation and valuation requirements |
| Employee Benefits | Conventional actuarial accounting | More comprehensive recognition and disclosure | Increased actuarial and disclosure requirements |
| Deferred Tax | Temporary differences | More comprehensive balance-sheet approach | Possible changes in deferred-tax balances |
| Consolidation | Existing control-based practices | Stronger emphasis on control assessment | More rigorous group reporting |
| Provisions | Recognition based on obligations and estimates | More structured recognition and measurement | Increased estimation and disclosure |
| Fair Value | Limited application | Expanded use of fair-value measurement | Greater dependence on valuation specialists |
| Related Parties | Existing disclosure | Broader and more structured | Greater transparency of |

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|---|---|---|---|
| | requirements | disclosure | government-related transactions |
| Disclosures | Comparatively less extensive | Extensive notes and judgement disclosures | Greater reporting burden but improved transparency |

## IMPACT ON PROPERTY, PLANT AND EQUIPMENT

PSUs operating in power, steel, mining, petroleum, railways, infrastructure, and manufacturing typically possess substantial property, plant and equipment. Ind AS 16 has increased the importance of systematic assessment of useful lives, residual values, depreciation methods, and significant components of assets.

Component accounting is particularly relevant for large industrial assets. An asset containing components with different useful lives may need to be depreciated separately. This can influence reported depreciation expense and carrying values.

For infrastructure-intensive PSUs, the transition can therefore result in more detailed asset registers, improved documentation, and increased involvement of technical and valuation specialists.

## IMPACT ON REVENUE RECOGNITION

Ind AS 115 introduced a comprehensive framework for revenue recognition based on the transfer of control and satisfaction of performance obligations.

For PSUs involved in engineering, construction, power generation, telecommunications, transport, and other long-term contracts, revenue recognition can be significantly affected. The identification of contracts, performance obligations, transaction prices, variable consideration, and timing of transfer requires greater managerial judgment.

This can improve the economic representation of revenue but may also create differences between earlier accounting practices and Ind AS-based results.

## IMPACT ON FINANCIAL INSTRUMENTS

One of the most significant areas of change is accounting for financial instruments under Ind AS 109.

PSUs often hold substantial investments, loans, receivables, deposits, guarantees, and other financial assets. Ind AS requires classification of financial assets based on business models and contractual cash-flow characteristics. It also introduces the Expected Credit Loss (ECL) model for impairment of qualifying financial assets.

**Table 2: Financial-Instrument Changes under Ind AS**

| Aspect | Ind AS Approach | Implication for PSUs |
|---|---|---|
| Classification | Amortised cost, FVOCI or FVTPL depending on criteria | Requires detailed assessment |
| Initial Measurement | Generally fair value | Increased valuation requirements |
| Subsequent Measurement | Depends on classification | Greater accounting complexity |
| Impairment | Expected credit loss | Earlier recognition of potential losses |
| Derivatives | Fair-value based accounting | Increased volatility in some cases |
| Disclosures | Extensive risk disclosures | Improved stakeholder understanding |

The ECL model may lead to earlier recognition of credit-risk effects than traditional incurred-loss approaches. For PSUs with significant receivables or financial exposures, this can affect provisions and reported profitability.

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## IMPACT OF LEASES

Ind AS 116 significantly changed lease accounting for lessees by introducing recognition of a right-of-use asset and corresponding lease liability for most leases within its scope.

PSUs frequently lease land, office premises, warehouses, vehicles, equipment, and other facilities. Consequently, implementation can increase recognised assets and liabilities and affect depreciation, finance costs, EBITDA, and other financial ratios.

The standard also requires organisations to identify lease arrangements that may previously have been treated as ordinary rental expenses. This necessitates stronger contract-review processes.

## IMPACT ON IMPAIRMENT OF ASSETS

Ind AS 36 requires entities to assess whether assets or cash-generating units may be impaired. The recoverable amount is determined using fair value less costs of disposal or value in use, as appropriate.

This is highly relevant for PSUs because some operate in cyclical or regulated industries. Changes in commodity prices, government policies, demand conditions, technological developments, project delays, and changes in expected cash flows can affect impairment assessments.

The increased use of discounted cash-flow techniques also makes management assumptions more important in determining reported asset values.

## IMPACT ON EMPLOYEE BENEFITS

PSUs generally have substantial employee bases and may provide pension, gratuity, leave encashment, medical benefits, and other post-employment benefits.

Ind AS 19 requires systematic recognition and measurement of employee-benefit obligations. Actuarial assumptions concerning salary growth, discount rates, employee turnover, mortality, and retirement patterns can materially influence reported liabilities.

Consequently, PSUs may need stronger coordination among human-resource departments, finance departments, actuarial experts, and auditors.

## IMPACT ON PROVISIONS AND CONTINGENT LIABILITIES

Ind AS 37 requires provisions to be recognised when specified conditions relating to present obligations, probable outflows, and reliable estimation are satisfied.

PSUs may face litigation, environmental obligations, contractual disputes, restoration responsibilities, warranties, and regulatory matters. The standard requires management to distinguish carefully between provisions and contingent liabilities.

Greater disclosure of uncertainties can improve transparency but may also require considerable professional judgment.

## IMPACT ON CONSOLIDATED FINANCIAL STATEMENTS

Ind AS 110 emphasises the concept of **control** for determining whether an entity should be consolidated. This can affect PSU groups having subsidiaries, associates, joint ventures, and special-purpose arrangements.

The evaluation of control requires consideration of power, exposure to variable returns, and the ability to use power to influence returns. Consequently, group structures may require more detailed analysis than under earlier practices.

## IMPACT ON RELATED-PARTY TRANSACTIONS

Government-controlled entities often conduct transactions with other government entities, subsidiaries, associates, joint ventures, and entities influenced by common government ownership.

Ind AS 24 requires appropriate disclosure of related-party relationships and transactions. This is especially important for PSUs because transparent reporting of transactions involving government-controlled entities can strengthen public accountability.

**IMPACT ON FAIR-VALUE MEASUREMENT**

Ind AS 113 provides a comprehensive framework for fair-value measurement. It establishes a hierarchy involving observable and unobservable inputs.

**Table 3: Fair-Value Hierarchy and PSU Implications**

| Level | Nature of Inputs | Example | PSU Implication |
|---|---|---|---|
| Level 1 | Quoted prices in active markets | Listed securities | Relatively objective valuation |
| Level 2 | Observable inputs other than quoted prices | Market-based valuation parameters | Requires valuation analysis |
| Level 3 | Significant unobservable inputs | Complex assets/instruments | Greater management judgment |

The increased role of fair value can improve economic relevance, but it can also introduce volatility and estimation uncertainty into financial statements.

## IV. BENEFITS OF IND AS ADOPTION FOR PSUS

**Table 4: Major Benefits**

| Benefit | Explanation |
|---|---|
| Improved Comparability | Facilitates comparison among Indian and international entities |
| Greater Transparency | Expands disclosure of accounting judgments and risks |
| Better Decision Usefulness | Provides more economically relevant information |
| Improved Investor Confidence | Strengthens credibility of reported financial information |
| International Comparability | Brings reporting closer to IFRS-based practices |
| Better Risk Recognition | ECL and impairment frameworks recognise risks more systematically |
| Stronger Governance | Requires more robust documentation and internal controls |
| Enhanced Accountability | Particularly important for publicly owned enterprises |

Ind AS has therefore contributed to a shift from relatively rule-oriented reporting toward a more principle-based reporting environment.

## V. CHALLENGES IN IMPLEMENTATION

Despite its benefits, Ind AS adoption has created several challenges for PSUs.

**1. Complexity of Standards**

Ind AS contains numerous detailed requirements involving measurement, classification, recognition, and disclosure. Smaller or less technically equipped PSUs may find implementation demanding.

**2. Requirement for Professional Expertise**

Accounting personnel require continuous training in fair valuation, financial instruments, impairment testing, leases, deferred taxation, and consolidation.

**3. Information-System Changes**

Existing ERP and accounting systems may not always capture the information necessary for Ind AS disclosures and measurement. System modification can therefore involve significant costs.

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**4. Increased Management Judgement**

Several Ind AS requirements rely on assumptions and estimates. This increases the importance of internal controls and professional judgment.

**5. Valuation Difficulties**

Fair-value calculations, impairment testing, employee-benefit valuation, and financial-instrument measurement may require external specialists.

**6. Sector-Specific Issues**

PSUs operating under government regulation may face accounting issues that are not encountered to the same extent by private-sector enterprises. Regulatory pricing, subsidies, government grants, concessions, and long-term infrastructure projects can complicate accounting judgments.

## VI. COMPARATIVE ASSESSMENT

**Table 5: Accounting Environment Before and After Ind AS**

| Dimension | Earlier Framework | Ind AS Environment |
|---|---|---|
| Orientation | More rule-oriented | More principle-oriented |
| Measurement | Greater emphasis on historical cost | Greater use of fair value where applicable |
| Financial Instruments | Relatively simpler | Sophisticated classification and measurement |
| Impairment | Comparatively less comprehensive | More structured and forward-looking |
| Revenue | Traditional recognition principles | Performance-obligation approach |
| Leases | Operating/finance classification | Right-of-use model for lessees |
| Disclosures | Less extensive | More detailed |
| Judgement | Comparatively lower in some areas | Higher |
| International Comparability | Limited | Improved |
| Reporting Complexity | Relatively lower | Higher |
| Stakeholder Information | Less extensive | More comprehensive |

## VI. CONCLUSION

The adoption of Ind AS has brought substantial changes to the accounting policies and practices of Public Sector Undertakings in India. The framework has encouraged greater transparency, comparability, consistency, and economic relevance in financial reporting. Significant changes have occurred in areas such as financial instruments, revenue recognition, leases, impairment, property, plant and equipment, employee benefits, provisions, consolidation, fair-value measurement, and disclosures.

For PSUs, the benefits of Ind AS are particularly important because these entities manage significant public resources and operate in economically strategic sectors. More comprehensive financial reporting can strengthen accountability and assist investors, government authorities, lenders, auditors, and other stakeholders in making informed decisions.

At the same time, implementation has increased accounting complexity, professional judgment, valuation requirements, disclosure obligations, and dependence on sophisticated information systems. Therefore, Ind AS adoption should not be viewed merely as a technical compliance exercise. It requires an organisation-wide commitment involving management, finance professionals, auditors, valuation experts, information-technology teams, and regulators.

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