Conceptual Paper

Impact of Implementing IFRS-based Accounting Standards on the Financial Position of NBFCs in India: An Investigation on First-time Adopters

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Debjyoti Dey[1] and Sunil Kumar Gandhi[2]

Abstract

Converged form of global accounting standards (IAS and IFRS) Ind AS has been implemented in India in a phase-wise manner. The first two phases of Ind AS implementation (2016–2017 and 2017–2018) were applicable for the non-financial companies, while the next two phases (2018–2019 and 2019–2020) were meant for non-banking financial companies (NBFCs). However, banks and insurance companies have not yet received regulatory approval for the adoption of Ind AS for preparing Ind AS–based financial statements from their respective regulators. In the present research, we examined the impact of adopting Ind AS on the net worth of NBFCs. This study involved a sample of 100 listed NBFCs, focusing on the transition and comparative years for first-time adopters after reclassifying and restating their asset and liability figures. Our findings indicated that over 60% of the sampled NBFCs experienced a positive change in net worth during the transition and comparative periods for both groups of adopters. Additionally, more than 65% reported a change (both positive and negative) in net worth of 10% or less. We conducted a paired sample *t*-test, which showed no significant difference in net worth between 'AS' and 'Ind AS' for the adopters in the year 2018–2019, on both the transition and comparative dates. Conversely, for those who adopted Ind AS in 2019–2020, the same test revealed a significant difference in net worth between 'AS' and 'Ind AS' on both the transition and comparative dates. Therefore, we conclude that the impact of Ind AS on net worth was more

[1] School of Business Management, Narsee Monjee Institute of Management Studies (NMIMS), Mumbai, Maharashtra, India
[2] Department of Commerce, University of Kalyani, West Bengal, India

Corresponding author:
Debjyoti Dey, School of Business Management, Narsee Monjee Institute of Management Studies (NMIMS), Mumbai, Maharashtra 400005, India.
E-mail: debjyoti.dey1@gmail.com

pronounced for NBFCs that implemented Ind AS in 2019–2020, that is, for those with a net worth of less than 500 crore.

Keywords

Ind AS, NBFCs, Net Worth, IFRS, Financial Position, Global Accounting Standards

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Introduction

With the view of bringing uniformity in accounting practices across the world, the International Accounting Standard Board (IASB) (previously known as the International Accounting Standard Committee (IASC)) issues global accounting standards (AS), namely International Financial Reporting Standards (IFRS). India, being one of the prominent members of IASB, has decided to mandatorily implement Ind AS, that is, a converged form of global AS with effect from 2016–2017 in a phase-wise manner depending upon two parameters, that is, the net worth of the company and/or its listing status in the stock market. Ind AS, being a refined system of financial reporting, it was believed that its going to benefit the Indian corporates by bringing more transparency in the accounting and reporting system (Kaur et al., 2019).

The first two phases (i.e., 2016–2017 and 2017–2018) of Ind AS implementation were applicable on non-financial companies, and the next two phases, that is, 2018–2019 and 2019–2020, were applicable only on the NBFCs, though these two phases were supposed to be initially applicable on banks and insurance companies as well. But implementation of Ind AS by banks and insurance companies has been deferred by their respective regulators. Banks and insurance companies in India have not yet implemented Ind AS till date.

Several changes have been brought about by the implementation of Ind AS, particularly in the case of financial companies (mainly by Ind AS 32, Ind AS 107, Ind AS 109 and Ind AS 113), such as changes in the measurement, recognition and reporting of financial assets and liabilities. Some of the major changes are impairment provisioning under expected credit loss (ECL), application of effective interest rate on interest income or finance cost, fair valuation of investments through P&L (FVTP&L), fair valuation through other comprehensive income (FVOCI), fair valuation of employee stock option plan, etc. Due to these changes, NBFCs' financial performance, as well as their financial positions, that is, their balance sheets, have been affected.

The statement of financial position, popularly known as the 'balance sheet', is a statement that shows an entity's assets, liabilities and equity on a specific date. The accounting equation, which is also known as the balance sheet equation, is familiar to us:

$$\text{Liabilities} + \text{Equity} = \text{Assets.}$$

For NBFCs, assets are categorised into financial and non-financial assets. Similarly, liabilities are also classified into financial and non-financial liabilities as per Division III of Schedule III of the Companies Act, 2013.

Therefore, the equation can be elaborated as follows:

$$\text{Liabilities} + \text{Equity} = \text{Assets}$$

$$\text{Or, (Financial liabilities} + \text{Non-financial liabilities)} + \text{Equity/Net worth} = \text{(Financial assets} + \text{Non-financial assets)}$$

$$\text{Or, Equity/ Net worth} = \text{(Financial assets} + \text{Non-financial assets)} - \text{(Financial liabilities} + \text{Non-financial liabilities)}$$

(Therefore, any increase in financial assets will positively impact equity/net worth and vice versa. Conversely, any increase in financial liability will lead to a decrease in equity/net worth, and vice versa.)

This study examines the impact on net worth resulting from the reclassification and restatement of asset and liability figures in accordance with Ind AS. The analysis aims to assess the effect of Ind AS adoption on the financial position of the NBFCs that implemented Ind AS in the financial years 2018–2019 and 2019–2020. A total sample of 100 listed NBFCs has been considered for this purpose.

Fair Value Changes due to Ind AS and Implications on Net Worth

A crucial requirement for adopting Ind AS is to determine the fair value of assets and liabilities. Ind AS 101 has mandated that any differences resulting from the fair value change in assets and liabilities must be adjusted against the retained earnings of the entity implementing Ind AS for the first time. It is known that, with the share capital, retained earnings are also added for computing the net worth of a company.

As per Section 2(57) of the Companies Act, 2013, net worth includes paid-up share capital, reserves from profits, securities premium account and P&L balance after deducting accumulated losses, deferred expenditure (if any) and miscellaneous expenditure (if any). Not to be included items are reserves from asset revaluation, write-back of depreciation, etc.

Net worth should accurately represent a company's true value. Net worth includes 'all reserves created from profits', but it excludes 'reserves from the revaluation of assets'. To decide if any changes arising on the account of fair valuation are required to be adjusted through retained earnings, it is important to understand the nature of the adjustment.

Reporting entities are allowed to adjust the fair value at the time of transition to align the values of assets and liabilities in the Ind AS financial statements as closely as possible with Ind AS treatment. While retrospective changes in the figures of assets and liabilities are not feasible, the entity can adjust the opening values of assets and liabilities on the transition date. This adjustment is based on the assumption that if the entity had been following the Ind AS provisions since the beginning, some assets or liabilities that appeared in the financial statements under the previous AS might not have been shown under Ind AS and vice versa. Additionally, it is possible that the value of assets and liabilities under the previous AS differs from the provisions of Ind AS.

Hence, Ind AS permits reporting entities to implement these initial adjustments on the transition date itself by reclassifying, measuring and re-evaluating the assets and liabilities and incorporating the overall impact of these adjustments in retained earnings. The objective of these modifications is to ensure that the equity/net worth presented on the transition date complies with Ind AS. Consequently, such alterations in the carrying amount of liabilities and assets on the transition date should not be regarded as a revaluation of assets or liabilities.

Review of literature

The financial position of the commercial banks that implemented IFRS has significantly changed mainly due to the introduction of IFRS 9, which resulted in increased impairment provisions for loans (Juszczyk et al., 2023). The value of financial companies has significantly been affected due to the classification of financial assets (Ltaief & Moalla, 2023). Though the financial position of the banks has been adversely affected due to IFRS, there is a decrease in risk as a result of the implementation of the IFRS 9 based forward-looking approach to loan loss provisioning. Further, a more intensified effect has been observed in countries with stringent accounting regulatory enforcement and banking supervision (Kyiu & Tawiah, 2023). IFRS adoption did not cause any significant difference in the profits of IFRS adopted companies in developed countries and developing countries (Sharma & Gupta, 2019). On the other hand, another research conducted on 140 manufacturing companies in Turkey revealed that the transition from local GAAP to IFRS had a significant impact on inventories, fixed assets, long-term liabilities and shareholders' equity (Terzi et al., 2013). The impact of IFRS adoption on German companies from 1998 to 2002 revealed that under IFRS, the value of equity, total assets and net earnings variability significantly increased compared to the previous ASs (Hung & Subramanyam, 2007).

Analysing the impact of IFRS-based Ind AS on the profit of the Indian companies, it was found that unlike balance sheet items, the reported profit did not significantly change due to the transition, the outcome arrived by analysing both the absolute profit figures and the relative return ratios (Basu & Mitra, 2020). In another study, Gray's comparability index on the different components of the profit and loss statement and balance sheet revealed that in most cases Ind AS adoption has no significant effect on the profit and loss statements and balance sheets in comparison to IGAAP (Pramanick, 2018). Ind AS introduces the concept of total comprehensive income (TCI), which comprises both profit/loss after tax and other comprehensive income (OCI), a study on how NBFCs highlighted the direction and size of OCI revealed that OCI's contribution to TCI was not significant in the first year of Ind AS implementation (Dey & Gandhi, 2024). The impact of OCI was not found to be significant when measured in terms of profitability ratios. Additionally, it was also determined that the influence of Ind AS adjustment on the day of transition was not significant in equity to market capitalisation (Ghosh, 2019). A study carried out on 19 public sector NBFCs revealed major changes are fair valuation of financial instruments, application of ECL, deferred tax and fair valuation of post-retirement employee benefits etc. It also highlighted that Ind AS has impacted key operating and financial ratios, which helps to understand companies' liquidity, operational efficiency and profitability (Comptroller and Auditor General of India, 2021).

Research Gap and Rationale of the Study

Since IFRS have been around for quite some time in the international context, there has been a significant amount of research conducted on the implementation of IFRS over the past 25 years or so in the international context. The existing research covers a wide range of dimensions related to IFRS implementation.

Contrary to the above, research relating to the adoption or implementation of Ind AS in the Indian context is relatively new since this accounting phenomenon is relatively new to this country. However, on the basis of review of existing literature, so far, it could be accessed, that there has been no research as regard to analysing the impact of Ind AS implementation on the net worth (i.e., on their financial position) of NBFCs. However, some research has been carried out at the corporate level by E&Y, KPMG, Motilal Oswal or by credit rating agencies like ICRA, etc.

Further, it NBFCs are the first financial companies in India that who adopted a converged form of global Accounting Standards (AS), that is, Ind AS. In this regard, banking and insurance companies are yet to implement Ind Accounting Standards (AS), though they were supposed to adopt Ind AS with effect from 2018–2019 in a phase-wise manner, but the implementation has been deferred by their respective regulators. Therefore, NBFCs are the first financial companies that implement Ind AS, which creates an interest in having an understanding of the impact of Ind AS on the net worth of NBFCs.

Sample Selection, Source of Data and Methodology

Sample Selection

In the current investigation, a comprehensive sample comprising the top 100 listed first-time Ind AS adopters, NBFCs, has been examined. The sample has been selected based on their market capitalisation at the Bombay Stock Exchange. Selecting the sample based on market capitalisation includes economically significant and publicly influential entities, thereby filtering out smaller, less active NBFCs, which may not represent mainstream industry practices. It is further to note that these 100 NBFCs typically cover the majority of the NBFC sector's total assets and market share, making them economically representative of the industry as a whole. The rationale behind choosing the listed NBFCs is owing to their enhanced disclosure norms, regulatory oversight and availability of consistent financial data, which ensures the reliability of comparisons before and after Ind AS implementation (Figure 1).

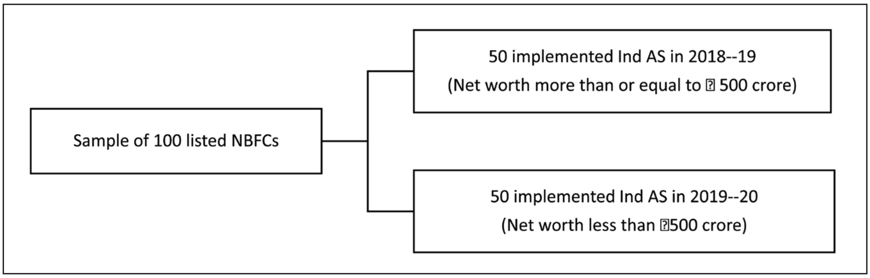

Figure 1. Pictorial Description of the Sample NBFCs Considered in the Study.
Source: Compiled by researchers.

Amongst this group of 100 sample NBFCs, 50 NBFCs commenced the implementation of Ind AS effective F/Y 2018–2019 (this phase was mandated for entities with a net worth of ₹500 crore or more). Concurrently, the remaining 50 sample NBFCs (those with a net worth of less than ₹500 crores) adopted Ind AS commencing from F/Y 2019–2020. This inclusion of both net worth ≥₹500 crore and net worth <₹500 crore NBFCs corresponds with the two regulatory phases of Ind AS adoption mandated by the Ministry of Corporate Affairs for NBFCs. This segmentation ensures that the sample captures the potential impact of accounting transition across two categories of NBFCs (i.e., net worth ≥ ₹500 crore and net worth <₹500 crore), thereby enhancing the robustness of the findings.

Source of Data

According to paragraphs 40A and 40B of Ind AS 1 (presentation of financial statements), an entity implementing Ind AS for the first time in preparation of its financial statements is required to present a third balance sheet as at the beginning of the preceding period since the entity applies the accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in its financial statements. Accordingly, an entity shall present three balance sheets as at:

(i) the end of the current period;
(ii) the end of the preceding period and
(iii) the beginning of the preceding period.

Let us understand the same, with the help of the following examples (Table 1):

Table 1. Requirements of Balance Sheets to Be Prepared by the First-time Adopters of Ind AS.

Sl No.	Ind AS Implementing Year	Current Period	Preceding Period (i.e., Comparative Year)	Beginning of the Preceding Period (Transition Year)
1.	2018–2019	As on March 31, 2019, i.e., the first Ind AS–based balance sheet.	As on March 31, 2018, i.e., comparative year balance sheet.	As on April 1, 2017, i.e., transition date balance sheet.
2.	2019–2020	As on March 31, 2020, i.e., the first Ind AS–based balance sheet.	As on March 31, 2019, i.e., comparative year balance sheet.	As on April 1, 2018, i.e., transition date balance sheet.

Source: Compiled by researchers.

For the NBFCs that implemented Ind AS with effect from 2018–2019, the transition date was April 1, 2017, and for the NBFCs those implemented Ind AS with effect from 2019–2020, the transition date was April 1, 2018.

On the other hand, Ind AS 101 (first-time adoption of Ind AS) requires a first-time Ind AS implementing entity to prepare its balance sheets on the transition date according to Ind AS by restating the figures of assets and liabilities. At the same time, the entity must also reclassify the assets and liabilities of the previous year according to Ind AS to make them comparable with the current year's Ind AS figures. Let us understand this with the help of proforma balance sheet depicted in Table 2.

According to Paragraph 23 of Ind AS 101, first-time adoption of Ind AS, an entity is required to disclose, in its notes to accounts, the effect of transitioning from the previous AS to Ind AS on its financial statements. The first set of Ind AS financial statements must include reconciliations showing the differences between net worth as reported under the previous AS and under Ind AS, both at the date of transition and at the end of the latest period presented under the earlier framework, that is, 'AS'. Further, reconciliations of profit or loss and cash flows must also be provided to explain the impact of Ind AS adjustments. These disclosures ensure clarity, transparency and comparability of financial information during the transition process.

Table 3 depicts a proforma reconciliation statement of the balance sheet, required to be prepared to explain what are the causes of differences in equity and how much is the impact on each of the items of the balance sheet.

- ➔ Balance sheets as of April 1, 2017 (transition date) and March 31, 2018 (comparative date) are available under both erstwhile AS and Ind AS for the NBFCs that adopted Ind AS from 2018–2019 onwards.
- ➔ Similarly, Balance sheets as of April 1, 2018 (transition date) and March 31, 2019 (comparative date) are available under both erstwhile AS and Ind AS for the NBFCs that adopted Ind AS from 2019 to 2020 onwards.

Lastly, reconciliation statements presented by the first-time adopters in their notes to accounts have been used as the basis for data collection.

This study employs a cross-sectional design, analysing net worth data at the transition date and the comparative date for two categories of NBFCs. The primary objective of the study is to assess the initial financial reporting effects of Ind AS adoption on financial position, rather than long-term outcomes. Cross-sectional analysis is considered to be appropriate for evaluating the impacts of first-time adoption, specifically those resulting from transition adjustments.

However, to assess the long-term impact of Ind AS on the financial position of NBFCs, as reflected through their net worth, future research may be extended by employing a longitudinal or panel research design that captures the effects over multiple reporting periods.

Table 2. Proforma Balance Sheet (Condensed) of the NBFCs in the First Year of Ind AS Adoption.

		Note No.	March 31, 20XX (First Year of Ind AS Implementation)*	March 31, 20XX (Comparative year of Ind AS Implementation)**	April 1, 20XX (Transition Date)***
	Assets				
(1)	Financial asset				
(2)	Non-financial assets				
	Total Assets		xxx	xxx	xxx
	Liabilities				
(1)	Financial liabilities				
(2)	Non-financial liabilities				
(3)	Equity				
	Total Liabilities and Equity		xxx	xxx	xxx

Source: Compiled by researchers.

Notes: *March 31, 2019, for the NBFCs implemented Ind AS in 2018–2019 and March 31, 2020, for the NBFCs implemented Ind AS in 2019–2020.

**March 31, 2018, for the NBFCs implemented Ind AS in 2018–2019 and March 31, 2019, for the NBFCs implemented Ind AS in 2019–2020.

***April 1, 2017, for the NBFCs implemented Ind AS in 2018–2019 and April 1, 2018, for the NBFCs implemented Ind AS in 2019–2020.

Table 3. Proforma of Reconciliation Statement That the First-time Adopters of Ind AS Are Required to Provide in their Financial Statements in the Year of Ind AS adoption.

		On the Day of Transition*			As on Comparative Date**		
Particulars	Notes to First-time Adoption	Previous GAAP	Adjustments	Ind AS	Previous GAAP	Adjustments	Ind AS
Assets							
Financial assets							
Non-financial assets							
Total Assets		XXX	XXX	XXX	XXX	XXX	XXX
Liabilities and equity							
Liabilities							
Financial liabilities							
Non-financial liabilities							
Equity							
Total liabilities and equity		XXX	XXX	XXX	XXX	XXX	XXX

Source: Compiled by the researchers.

Methodology

To check the normality of the data set, since it is one of the prerequisites of applying the paired *t*-test, we applied Kolmogorov–Smirnov and Shapiro–Wilk test and to test whether the net worth as per ‘AS’ and the net worth as per ‘Ind AS’ is statistically significant, we applied paired sample *t*-test.

Results and Discussion

We conducted an analysis of the impact of the transition to Ind AS on the net worth of the NBFCs that implemented Ind AS from 2018–19. The analysis was conducted on the transition date, that is, April 1, 2017, and the comparative date, that is, March 31, 2018.

Similarly, we have also analysed the impact of conversion to Ind AS on the net worth of the NBFCs, which implemented Ind AS from 2019–20 on the transition date, that is, April 1, 2018, and on the comparative date, that is, March 31, 2019.

Table 4 shows that on the transition date, that is, April 1, 2017, 49 NBFCs reported changes in net worth after translating the figures of assets and liabilities as per Ind AS. Out of the 49 NBFCs, 19 NBFCs reported a decrease in net worth as per Ind AS, and the remaining 30 NBFCs showed higher net worth as per Ind AS compared to net worth as per the erstwhile AS. Similarly, it was also found that on the comparative date, that is, March 31, 2018, 49 companies showed change in net worth, of which 16 NBFCs reported decrease and the remaining 33 NBFCs reported an increase in net worth compared to net worth as per the erstwhile AS.

When it comes to the NBFCs that adopted the Ind AS in 2019–20, it was found that on the transition date (April 1, 2018), 48 NBFCs reported changes in their net worth after adjusting and/or reclassifying the figures of assets and liabilities. Out of the 48, 17 NBFCs reported a decrease in net worth according to the Ind AS, while the remaining 31 NBFCs showed a higher net worth under the Ind AS compared to the net worth under the previous accounting standards. Further, the analysis revealed that as of March 31, 2019, that is, on comparative date, 49 NBFCs experienced changes in their net worth. Out of these, 18 NBFCs reported a decrease, while 31 NBFCs reported an increase in net worth compared to the previous AS, showcasing the positive impact of the changes.

Table 5 displays the percentage change in net worth compared to the net worth as per the previous AS on the transition date, which is April 1, 2017. It has been observed that out of 19 NBFCs that reported a decrease in net worth, seven reported a decrease of 'less than 5%', followed by four NBFCs with a decrease 'between 5% to 10%' and so on. Only three NBFCs reported a decrease in net worth of 'more than 30%' on the transition date.

Table 5 also indicates that out of 30 NBFCs that reported an increase in net worth as of the transition date, 15 (i.e., 50%) showed 'less than or equal to 5%' increase in net worth compared to the net worth as per the erstwhile AS. Additionally, 4 NBFCs reported an increase in net worth by more than '5% but less than or equal to 10%' and so on. Only 4 NBFCs showed 'more than a 30%' increase in net worth.

Table 4. Impact of Ind AS on Net Worth of the Sample NBFCs Which Implemented Ind AS with Effect from 2018–2019 and 2019–2020.

	Implemented Ind AS w.e.f. 2018–2019		Implemented Ind AS w.e.f. 2019–2020	
	On Transition Date, i.e., April 1, 2017	On Comparative Date, i.e., March 31, 2018	On Transition Date i.e., April 1, 2018	On Comparative Date, i.e., March 31, 2019
Reported increase in net worth	30	33	31	31
Reported decrease in net worth	19	16	17	18
Reported no change in net worth	1	1	2	1
Total	50	50	50	50

Source: Compiled by the researchers.

It is evident from Table 5 that out of 49 NBFCs that reported a change (either an increase or decrease) in net worth compared to the previous AS on the transition date as well as on comparative date, more than 60% of them have shown less than or equal to a 10% change in net worth.

Furthermore, Table 5 illustrates the percentage change (i.e., increase or decrease) in net worth compared to the erstwhile AS on the comparative date, which is March 31, 2018. Out of 16 NBFCs that reported a decrease in net worth on March 31, 2018, 9 showed ‘less than a 5%’ decrease, followed by two NBFCs with a decrease ‘between 5% and 10%’ and so on. Only two NBFCs reported a decrease in net worth of ‘more than 30%’ on the comparative date, that is, March 31, 2018.

Table 5 indicates that out of the 33 NBFCs that reported an increase in net worth on the comparative date, approximately 51% (17 NBFCs) showed a ‘less than or equal to 5%’ increase in net worth compared to the net worth as per previous AS. Additionally, four NBFCs reported an increase in net worth of ‘more than 5% but less than or equal to 10%’ and so on. Only five NBFCs showed an increase in net worth of ‘more than 30%’.

The table also shows that out of 49 NBFCs that reported a change (either an increase or a decrease) in net worth compared to the erstwhile AS, 32 (i.e., 65% approximately) of them have shown less than or equal to 10% change in net worth.

Table 5. Percentage Change in Net Worth Compared to Erstwhile AS on Transition Date, i.e., April 1, 2017, and on Comparative Date, i.e., March 31, 2018, for the NBFCs Implemented Ind AS in 2018–2019.

	Transition Date, i.e., April 1, 2017		Comparative date, i.e., March 31, 2018	
% Change (i.e., Increase/Decrease) in Equity/Net Worth Compared to the Previous GAAP	Number of Companies Reported Decrease in Equity	Number of Companies Reported Increase in Equity	Number of Companies Reported Decrease in Equity	Number of Companies Reported Increase in Equity
Less than or equal to 5%	7	15	9	17
More than 5% but less than or equal to 10%	4	4	2	4
More than 10% but less than or equal to 15%	2	5	1	3
More than 15% but less than or equal to 20%	1	0	2	2
More than 20% but less than or equal to 25%	2	1	0	2
More than 25% but less than or equal to 30%	0	1	0	0
More than 30%	3	4	2	5
Total	19	30	16	33

Source: Compiled by the researchers.

Table 6 shows per cent change (i.e., increase/decrease) in net worth compared to the erstwhile AS on the transition date, that is, April 1, 2018, as well as on the comparative date, that is, March 31, 2019. It shows that out of 17 NBFCs that reported a decrease in net worth on the transition date, 12 showed 'less than 5% decrease' followed by four NBFCs with 'between 5% to 10% decrease', and only one NBFC showed 'more than 30% decrease' in the net worth as on the date of transition.

Table 6 also shows that out of 31 NBFCs which reported an increase in net worth on April 1, 2018, 13 (i.e., 42%) showed 'less than or equal to 5%' increase in net worth compared to erstwhile AS, three NBFCs reported an increase in net worth 'more than 5% but less than or equal to 10%' and so on. It is noteworthy to mention that 10 NBFCs showed 'more than 30%' increase in net worth.

Further, Table 6 also shows per cent change (i.e., increase/decrease) in net worth as per Ind AS compared to erstwhile AS on a comparative date, that is, March 31, 2019. It is seen that out of 18 NBFCs that reported a decrease in net worth on March 31, 2019, 12 showed 'less than 5%' decrease, followed by four NBFCs between '5% to 10% decrease' and so on. Only one NBFC reported 'more than 30%' decrease in net worth as of the comparative date, that is, March 31, 2019.

Table 6 also shows that out of 31 NBFCs reported an increase in net worth on comparative date, that is, on March 31, 2019, 17 (i.e., 51% approximately) showed less than or equal to 5% increase in net worth compared to erstwhile AS, followed

Table 6. Percentage Change in Net Worth Compared to Erstwhile AS on Transition Date, i.e., April 1, 2018, and on Comparative Date, i.e., March 31, 2019, for the NBFCs Implemented Ind AS in 2019–2020.

	Transition Date, i.e., April 1, 2018		Comparative Date, i.e., March 31, 2019	
% Change (i.e., Increase/Decrease) in Equity/Net Worth Comparedto Previous GAAP	Number of Companies Reported Decrease in Equity	Number of Companies Reported Increase in Equity	Number of Companies Reported Decrease in Equity	Number of Companies Reported Increase in Equity
Less than or equal to 5%	12	13	12	17
More than 5% but less than or equal to 10%	4	3	4	0
More than 10% but less than or equal to 15%	0	3	1	2
More than 15% but less than or equal to 20%	0	2	0	2
More than 20% but less than or equal to 25%	0	0	0	1
More than 25% but less than or equal to 30%	0	0	0	0
More than 30%	1	10	1	9
Total	17	31	18	31

Source: Compiled by the researchers.

by two NBFCs reported increase in net worth by 'more than 10% but less than or equal to 15%' and so on. Nine (i.e., 29% approximately) NBFCs showed 'more than 30%' increase in net worth.

The table also shows that out of 49 NBFCs that reported a change (either increase or decrease) in net worth compared to erstwhile AS, 33 (i.e., 67% approximately) have shown less than or equal to 10%.

Statistical Significance of Impact of Conversion from 'AS' to 'Ind AS' on the Net Worth of NBFCs, Which Implemented 'Ind AS' with Effect from 2018–2019 and 2019–2020

We noticed that NBFCs experienced a change in net worth as on the transition date as well as on the comparative date. We have attempted to test the statistical significance of the difference in net worth as per the previous AS and as per the new Indian Accounting Standard (Ind AS) during the transition and on the comparative date.

Test of Normality

One of the prerequisites for a paired sample *t*-test is that the data should be normally distributed. To check this, we perform a normality test using the Kolmogorov–Smirnov and Shapiro–Wilk tests. These tests determine whether the data sets representing net worth reported on the transition date, as well as on the comparative date, for the sample NBFCs are normally distributed or not under both erstwhile AS and Ind AS. The tests of normality use the following hypotheses:

H_0: The data representing equity are normally distributed.
H_1: The data representing equity are not normally distributed.

Table 7 (for the sample NBFCs implemented Ind AS in 2018-19) & Table 8 (for the Sample NBFCs implemented Ind AS in 2019-20) show that before performing the log transformation on the data the p values of both the Kolmogorov–Smirnov and Shapiro–Wilk tests were less than .05. Therefore, we rejected the null hypothesis, indicating that both data sets (i.e., net worth as per the erstwhile AS and as per Ind AS) are not normally distributed for both the transition date and the comparative date.

Since the data of net worth as per the erstwhile AS and net worth as per Ind AS of the sample NBFCs are not found to be normally distributed, we log-transformed the data. We further applied Kolmogorov–Smirnov and Shapiro–Wilk test to check whether data set has now become normally distributed post log

For the NBFCs implemented Ind AS in 2018–2019

Table 7. Result of Kolmogorov–Smirnov and Shapiro–Wilk Test of Normality Before and Post Log Transformation of the Data Representing Net Worth for the NBFCs Implemented Ind AS in 2018–2019.

	Transition Date, i.e., April 1, 2017				Comparative Date, i.e., March 31, 2018			
	Before Log Transformation		Post Log Transformation		Before Log Transformation		Post Log Transformation	
	Kolmogorov–Smirnov	Shapiro–Wilk	Kolmogorov–Smirnov	Shapiro–Wilk	Kolmogorov–Smirnov	Shapiro–Wilk	Kolmogorov–Smirnov	Shapiro–Wilk
Net worth as per erstwhile AS	0.261 (.00)	0.576 (.00)	0.084 (.20)	0.969 (.22)	0.308 (.00)	0.499 (.00)	0.123 (.055)	0.959 (.08)
Net worth per Ind AS	0.260 (.00)	0.596 (.00)	0.078 (.20)	0.983 (.70)	0.310 (.00)	0.483 (.00)	0.106 (.200)	0.968 (.18)

Source: Computed by the researchers.
Note: Figures in parentheses represent p values.

For the NBFCs Implemented Ind AS in 2019–2020

Table 8. Result of Kolmogorov–Smirnov and Shapiro–Wilk Test of Normality Before and Post Log- Transformation of the Data Representing Net Worth for the NBFCs Implemented Ind AS in 2019–2020.

	Transition Date, i.e., April 1, 2018				Comparative Date, i.e., March 31, 2019			
	Before Log Transformation		Post Log Transformation		Before Log Transformation		Post Log Transformation	
	Kolmogorov–Smirnov	Shapiro–Wilk	Kolmogorov–Smirnov	Shapiro–Wilk	Kolmogorov–Smirnov	Shapiro–Wilk	Kolmogorov–Smirnov	Shapiro–Wilk
Net worth as per erstwhile AS	0.330 (.000)	0.400 (.000)	0.090 (.200)	0.936 (.090)	0.256 (.000)	0.799 (.000)	0.076 (.200)	0.970 (.242)
Net worth per Ind AS	0.213 (.000)	0.836 (.000)	0.105 (.200)	0.966 (.158)	0.305 (.000)	0.466 (.000)	0.085 (.200)	0.989 (.933)

Source: Computed by the researchers.

Note: Figures in parentheses represent p values.

transformation. As the *p* values are found to be more than .05 for both Kolmogorov–Smirnov and Shapiro–Wilk tests, we accept the null hypothesis, that is, data are normally distributed.

Results of Paired Sample t-Test

After normalising the data sets, we used a paired sample *t*-test to determine if the difference between the net worth reported under the previous AS and the net worth reported under Ind AS for the sample NBFCs is statistically significant. The test was conducted to test the following hypothesis:

Transition Date	Comparative Date
H_0: The difference between the net worth reported as per erstwhile AS and as per Ind AS on the transition date is not statistically significant (for both 2018–2019 and 2019–2020 Ind AS adopters).	H_0: The difference between the net worth reported as per erstwhile AS and as per Ind AS on the comparative date is not statistically significant (for both 2018–2019 and 2019–2020 Ind AS adopters).
H_1: The difference between the net worth reported as per erstwhile AS and as per Ind AS on the transition date is statistically significant (for both 2018–2019 and 2019–2020 Ind AS adopters).	H_1: The difference between the net worth reported as per erstwhile AS and as per Ind AS on the comparative date is statistically significant (for both 2018–2019 and 2019–2020 Ind AS adopters).

As regards 2018–2019 Ind AS adopters, *p* value of paired sample *t*-test is .386; we accept the null hypothesis, that there is no significant difference in the net worth as per Ind AS and net worth as per erstwhile AS, reported on April 1, 2017, that is, on the transition date. Further, the table shows that the *p* value of paired sample *t*-test is 0.06 when applied for determining the difference between the net worth as per erstwhile AS and net worth as per Ind AS on March 31, 2018 (i.e., comparative date); we accept the null hypothesis at 5%, that there is a no significant difference in the net worth as per Ind AS and net worth as per erstwhile AS reported as March 31, 2018, that is, on comparative date for the 50 sample NBFCs; however, at the 10% level of significance, we reject the null hypothesis and accept the alternative hypothesis.

As for the NBFCs that adopted Ind AS in 2019–2020, Table 9 indicates that the *p* value of the paired sample *t*-test is 0.006. We accept the alternative hypothesis at both the 5% and 1% levels of significance. Therefore, the difference in net worth as per Ind AS and as per the previous AS on April 1, 2018 (transition date), and on March 31, 2019 (comparative date) for the sample NBFCs is considered to be statistically significant.

The difference in net worth calculated as per the previous accounting standards and as per Ind AS was found to be statistically significant for NBFCs with a net worth below ₹500 crore who adopted Ind AS in 2019–2020, both for transition and for comparative dates. However, the difference is not found to be statistically significant for NBFCs with a net worth of ₹500 crores or more for those who adopted Ind AS in 2018–2019.

Table 9. Summary of Results of Paired *t*-test to Test Difference Between the Net Worth as per AS and as per Ind AS.

Year of Ind AS Adoption	Paired Sample	Calculated *t*-statistic
2018–2019	Difference between the net worth as per erstwhile AS and net worth as per Ind AS on April 1, 2017 (i.e., transition date)	0.874 (.386)
	Difference between the net worth as per erstwhile AS and net worth as per Ind AS on March 31, 2018 (i.e., comparative Date)	1.89 (.06)
2019–2020	Difference between the net worth as per erstwhile AS and net worth as per Ind AS on April 1, 2018 (i.e., transition date)	2.887 (.006)**
	Difference between the net worth as per erstwhile AS and net worth as per Ind AS on March 31, 2019 (i.e., comparative Date)	2.900 (.006)**

Source: Computed by the researchers.
Note: Figures in parentheses represent *p* values. $^{**}p < 0.01$.

Future Scope of Research

The present study employs a cross-sectional design as it analyses the net worth data at the transition date and the comparative date for two categories of NBFCs. Cross-sectional analysis is considered to be appropriate for evaluating the impacts of first-time adoption, specifically those resulting from transition adjustments since the primary objective of the study is to assess the initial financial reporting effects of Ind AS adoption on financial position instead of assessing the long-term impact. However, in order to assess the long-term impact of Ind AS on the financial position of NBFCs, as proxied by their net worth, future research may be carried out by employing a longitudinal or panel research design that captures the effects over multiple reporting periods.

Further, the study does not employ a control group or counterfactual analysis, as all NBFCs within the regulatory scope (i.e., having net worth of ≥₹500 crores and net worth <₹500 crores (listed)) were mandated to implement Ind AS, leaving no comparable non-adopting entities within the same regulatory environment. However, there are unlisted NBFCs having a net worth of less than ₹250 crores that is still following the previous AS. The research focuses on within-group cross-sectional differences across entities with varying net worth categories to understand the initial financial reporting impact. Future studies may extend this analysis by incorporating control samples (e.g., non-NBFC financial entities or pre-adoption period data) to establish stronger causal inferences.

Conclusion

The study aims to understand the impact of Ind AS on the net worth of the NBFCs during the transition and comparative periods for both 2018–2019 and 2019–2020 phase adopters. The study reveals that over 60% of the sample NBFCs demonstrated a positive change, showing an increase in net worth during the transitional and comparative periods for both phase adopters. Additionally, more than 65% of the sampled NBFCs across both phases reported a change (both increase and decrease) in net worth of less than or equal to 10%.

The paired sample *t*-test indicates that there is no significant difference in net worth as per 'AS' and net worth as per 'Ind AS' on both the transition date and the comparative date for the adopters of Ind AS for the year 2018–2019. However, in contrast to the above, the paired sample *t*-test reveals a significant difference between net worth as per 'AS' and net worth as per 'Ind AS' on both the transition date and comparative date for those adopting Ind AS in 2019–2020. Therefore, the effect of Ind AS on net worth was more pronounced for the NBFCs that implemented Ind AS in 2019–2020, that is, those having a net worth of less than 500 crore.

Declaration of Conflicting Interests

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ORCID iD

Debjyoti Dey https://orcid.org/0000-0002-4225-6157

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