



“Study of Impact of Ind As 116 on Financial Position and Financial Ratios of Selected Indian Companies”

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Abstract

Accounting standards play a crucial role in ensuring transparency, consistency, and reliability in financial reporting, which is essential for effective decision-making in personal financial planning as well as corporate analysis. With the introduction of Ind AS 116 (Leases), a significant transformation has taken place in the way lease transactions are recorded and presented in financial statements. Unlike the earlier standard, which allowed operating leases to be kept off the balance sheet, Ind AS 116 requires companies to recognize most leases as “right-of-use assets” along with corresponding lease liabilities. This change provides a more accurate and complete picture of a company’s financial obligations and resource utilization.

This study aims to examine the impact of Ind AS 116 on the financial position and key financial ratios of selected Indian companies, namely InterGlobe Aviation Ltd, Bharti Airtel Ltd, and PVR INOX Ltd. The research is based on secondary data collected from the published annual reports of these companies, focusing on periods before and after the implementation of the standard. A comparative analysis has

been conducted to evaluate changes in total assets, total liabilities, and important financial ratios such as debt-equity ratio, return on assets, and profitability margins.

The findings of the study indicate a substantial increase in both total assets and liabilities due to the capitalization of lease obligations. This has led to noticeable changes in leverage ratios, making companies appear more leveraged than before. At the same time, certain profitability ratios have been affected due to changes in expense recognition, as lease payments are now split into depreciation and interest components. While the adoption of Ind AS 116 has improved financial transparency and comparability within the same company over time, it has also created challenges in comparing



financial statements across different periods and among companies that adopted the standard at different times or used different transition approaches. Overall, the study highlights both the benefits and practical difficulties associated with the implementation of Ind AS 116 in the Indian corporate environment.

Keywords: Ind AS 116, Lease Accounting, Financial Reporting, Financial Ratios, Transparency

I. INTRODUCTION

Accounting Standards are formal guidelines issued by professional bodies such as the Institute of Chartered Accountants of India to ensure uniformity and transparency in financial reporting. These standards help in presenting financial information in a consistent and comparable manner, which is essential for decision-making by investors, lenders, and individuals engaged in personal financial planning. In India, accounting standards are regulated by the Ministry of Corporate Affairs, ensuring that companies follow a standardized reporting framework.

The implementation of Ind AS 116 from April 1, 2019, marked a major shift in lease accounting practices. Earlier, under Ind AS 17, leases were classified into operating and finance leases, where operating leases were not recorded on the balance sheet. This created a situation of off-balance sheet financing, reducing transparency and understating liabilities.

With the introduction of Ind AS 116, companies are now required to recognize a Right-of-Use asset and a corresponding lease liability, thereby providing a more accurate representation of financial obligations. This change has had a significant impact on financial reporting, particularly in industries where leasing is a major part of operations.

II. LITERATURE REVIEW

The existing literature highlights that changes in accounting standards can significantly influence financial reporting and analysis. Financial experts such as K. R. Subramanyam emphasize that financial statement analysis depends heavily on the accounting framework used, and any change in standards can alter the interpretation of financial performance.

Similarly, I. M. Pandey suggests that accurate and transparent financial reporting is essential for sound financial decision-making, while Prasanna Chandra highlights the importance of financial ratios in evaluating company performance.

Research studies conducted at the international level on IFRS 16 indicate that capitalization of leases leads to a significant increase in total assets and liabilities. These studies also conclude that leverage ratios such as the Debt–Equity Ratio tend to increase, while profitability ratios like Return on Assets decline due to a higher asset base.

At the same time, EBITDA shows improvement because lease expenses are replaced by depreciation and interest. In the Indian context, limited empirical research is available; however, existing studies suggest that companies such as InterGlobe Aviation Ltd, Bharti Airtel Ltd, and PVR INOX Ltd have experienced noticeable changes in their financial statements after adopting Ind AS 116. This indicates the need for further focused research in the Indian scenario.



III. RESEARCH METHODOLOGY

This study adopts a descriptive and analytical research design to examine the impact of Ind AS 116 on financial reporting. The research is based entirely on secondary data, which has been collected from reliable sources such as annual reports, financial statements, and official company disclosures. The study focuses on three major Indian companies, namely InterGlobe Aviation Ltd, Bharti Airtel Ltd, and PVR INOX Ltd, as these companies operate in industries where leasing plays a significant role.

The analysis covers a comparative period consisting of one year before the implementation of Ind AS 116 and one year after its adoption. The study uses financial tools such as comparative financial statement analysis, ratio analysis, and percentage analysis to evaluate the changes. Key variables considered in the study include total assets, total liabilities, Debt–Equity Ratio, Return on Assets, and EBITDA. These variables are selected because they directly reflect the financial position and performance of a company.

IV. RESULTS AND DISCUSSION

The analysis reveals that the adoption of Ind AS 116 has led to a significant increase in total assets and total liabilities across all selected companies. This increase is primarily due to the recognition of Right-of-Use assets and lease liabilities, which were previously not recorded on the balance sheet. While this enhances transparency, it also results in an expansion of the balance sheet, making companies appear larger in size.

The study also finds that leverage ratios, particularly the Debt–Equity Ratio, have increased for all companies. This is because lease liabilities are now treated as part of total debt, thereby increasing the overall financial obligations of the company. As a result,

companies may appear more leveraged even though their actual business operations remain unchanged.

In terms of profitability, the Return on Assets ratio has shown a decline. This is mainly due to the increase in total assets without a proportional increase in profits. On the other hand, EBITDA has increased significantly because lease expenses are no longer treated as operating expenses but are replaced by depreciation and interest. This leads to an improvement in operating performance indicators, even though the underlying cash flows remain the same.

The impact of Ind AS 116 is not uniform across all companies. InterGlobe Aviation Ltd shows the highest impact due to its heavy dependence on leased aircraft, while Bharti Airtel Ltd and PVR INOX Ltd show moderate impact due to their reliance on leased infrastructure and properties. The study also highlights that financial transparency has improved, as lease obligations are now clearly disclosed in the financial statements. However, this improvement in transparency comes with challenges, including increased complexity and difficulty in comparing financial data across different periods.





V. CONCLUSION

The adoption of Ind AS 116 has brought a significant transformation in financial reporting by eliminating off-balance sheet lease accounting and ensuring that lease obligations are properly recognized. This has improved the transparency and reliability of financial statements, providing stakeholders with a more accurate view of a company's financial position. However, the standard has also introduced complexities in financial analysis, as key financial ratios are affected by accounting changes rather than actual business performance.

From the perspective of personal financial planning, Ind AS 116 plays an important role by providing more reliable financial information, which helps individuals make better investment decisions. However, users of financial statements must carefully interpret the data, as changes in ratios may not always reflect real changes in performance. Overall, while Ind AS 116 enhances the quality of financial reporting, it requires a deeper understanding for effective analysis and decision-making.

VI. REFERENCES

The study is based on information obtained from official publications of the Ministry of Corporate Affairs and the Institute of Chartered Accountants of India, along with accounting standards such as Ind AS 116, Ind AS 17, and IFRS 16.

Additional references include annual reports of InterGlobe Aviation Ltd, Bharti Airtel Ltd, and PVR INOX Ltd, as well as standard textbooks on financial management and financial statement analysis.

Websites

- Ministry of Corporate Affairs – <https://www.mca.gov.in>
- Institute of Chartered Accountants of India – <https://www.icai.org>

- International Financial Reporting Standards Foundation – <https://www.ifrs.org>

- InterGlobe Aviation Ltd – <https://www.goindigo.in>

- Bharti Airtel Ltd – <https://www.airtel.in>

- PVR INOX Ltd – <https://www.pvrcinemas.com>