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AI IN COMPLIANCE WITH INDIAN ACCOUNTING STANDARD (IND AS) 7: An ANALYSIS OF CASH FLOW STATEMENTS OF Top 10 Nifty 50 LISTED COMPANIES IN INDIA

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ABSTRACT

This research examines the adherence of India's leading corporations to **Ind AS 7** (Statement of Cash Flows) and evaluates their cash management efficiency. Focusing on the **top 10 constituents of the Nifty 50 index**—spanning energy, IT, and banking—this study covers a three-year reporting period. As the Indian market converges with global standards, transparent cash flow reporting has become vital; unlike the Profit & Loss account, which includes non-cash items, the cash flow statement reveals a company’s true liquidity.

To enhance the depth of this study, **Artificial Intelligence (AI) was integrated into the analysis.** Machine learning algorithms were employed to process vast datasets, identifying hidden patterns in operating, investing, and financing activities. Additionally, Natural Language Processing (NLP) was used to verify the consistency and quality of disclosures against Ind AS 7 requirements. Our findings indicate universal compliance with the standard across all selected firms. However, AI-driven comparative analysis revealed significant variances in cash efficiency: IT firms consistently demonstrate superior profit-to-cash conversion, whereas banking and infrastructure sectors exhibit higher volatility. This research underscores the role of AI in providing investors with more precise, data-driven insights into corporate financial health.

1. INTRODUCTION

The financial health of a company is traditionally measured by its profitability. However, modern investors recognize that profit figures can be skewed by non-cash items, making the **Cash Flow Statement** an indispensable tool for revealing actual liquidity. In India, the transition to **Ind AS 7** marked a pivotal shift in financial reporting, requiring a rigorous classification of cash movements into operating, investing, and financing activities. For the **top 10 Nifty 50 companies**, which represent the backbone of India’s market capitalization, compliance with Ind AS 7 is both a regulatory mandate and a cornerstone of investor trust.

This research evaluates the compliance and cash flow efficiency of these market leaders over a three-year period. To modernize the analysis, an **AI interface** was utilized to perform deep-tier data extraction and pattern recognition. By leveraging **AI-driven analytics** alongside traditional statistical tools like **Mean Analysis and Standard Deviation**, the study assesses the "quality of earnings" with greater precision. This hybrid approach allows for a more nuanced understanding of how consistently these corporations convert accounting profits into tangible cash, identifying subtle trends in cash management that traditional manual analysis might overlook.

2. RESEARCH METHODOLOGY

This section outlines the framework we used to evaluate the compliance of Ind AS 7 and the financial performance of the selected companies.

A. Objective of the Study

- To evaluate how well the top 10 Nifty 50 companies follow the rules of Ind AS 7.
- To analyze the relationship between Net Profit and Cash Flow from Operations.
- To assess the cash management efficiency and liquidity position using specific financial ratios and statistical tools over a three-year period.

B. Statement of Problem

Profits often show growth but they frequently include non-cash items and accruals. These do not reflect liquidity. Investors face the risk of "paper profits" that may lead to insolvency if not backed by cash. The present study try to addresses whether the leaders of the Indian market maintain high transparency in cash reporting and if their operational success leads to effective cash generation.

C. Research Technique

We have used a Descriptive and Analytical Research Design. This design helps us to document the compliance levels of the companies and evaluate trends and performance metrics. It is descriptive as it documents the compliance levels of the companies, and analytical as it uses longitudinal data (time-series) to evaluate trends and performance metrics across different sectors.

D. Sample Selection

We selected the 10 companies of the Nifty 50 Index with high market capitalization.

E. Research Tools

We used ratios like Cash Flow Coverage Ratio and statistical tools like Arithmetic Mean and Standard Deviation.

F. Hypothesis

- **Null Hypothesis (H_0):** There is no significant correlation between the Net Profit and Cash Flow from Operations among the Top 10 Nifty companies.
- **Alternative Hypothesis (H_1):** There is a significant positive correlation between the Net Profit and Cash Flow from Operations, indicating high earnings quality and Ind AS 7 compliance

G. Type of Data

We relied entirely on secondary data. Which has been extracted from reports, audited financial statements and official databases of the companies.

3. COMPLIANCE EVALUATION FRAMEWORK

The compliance evaluation assesses how the top10 Nifty companies follow the rules of Ind AS 7.

3.1 Core Classification Compliance

Ind AS 7 requires a classification of cash movements. We observed a 100% adherence rate across all sampled companies.The companies classify their cash movements into operating, investing and financing activities. Operating activities include cash from core business. Investing activities include capital expenditure and asset sales. Financing activities include debt issuance, repayments and equity.

Activity Type	Definition & Findings	Standard Observation
Operating	Cash from core business (sales, services).	Primary source of net inflow for all 10 firms.
Investing	Capital expenditure (CapEx) and asset sales.	Heavy outflows seen in Reliance and Bharti Airtel (5G rollout).
Financing	Debt issuance, repayments, and equity.	Dominated by dividend payouts and loan repayments.

Reporting Method Preference: Detailed Analysis

This section explores the unanimous adoption of the **Indirect Method** by the Top 10 Nifty companies and its implications for financial transparency under Ind AS 7.

I. Comparative Evaluation of Reporting Methods

Ind AS 7 provides two frameworks for presenting operating cash flows. While the Direct Method shows gross cash receipts and payments, the **Indirect Method** is preferred by large-cap Indian entities for its reconciliatory nature.

Feature	Direct Method	Indirect Method (Nifty 10 Choice)
Data Source	Cash ledger/bank records	P&L Statement and Balance Sheet
Transparency	Shows major classes of cash receipts/payments	Highlights non-cash adjustments (Depreciation, Provisions)
Investor Utility	High for liquidity assessment	High for **Earnings Quality** assessment
Complexity	High (Requires detailed transaction tagging)	Moderate (Uses existing financial statements)
Adoption Rate	0% (among sample)	**100% (among sample)**

II. The Reconciliation Mechanism

The Nifty 10 companies utilize the Indirect Method to bridge the gap between "Accrual Accounting" (Net Profit) and "Cash Accounting." This is crucial for identifying if profits are actually backed by cash.

Typical Reconciliation Components (Average of Sample):

III. Observations on Quality of Disclosure

The study noted that IT giants like **TCS and Infosys** set the benchmark for detailed reconciliations.

- **TCS & Infosys:** These companies provide a granular breakdown of "Working Capital Changes," specifically detailing unbilled revenue and deferred contract costs. This ensures that investors can see exactly how much cash is "stuck" in the business cycle.
- **Reliance Industries:** Given its vast depreciation due to heavy CapEx (Petrochemicals and Telecom), the Indirect Method clearly illustrates how non-cash depreciation charges significantly increase operating cash flow relative to net profit.

IV. Statistical Significance of Method Choice

Using the Indirect Method, we calculated the **Cash Conversion Ratio** (Operating Cash Flow / EBITDA).

Sector	Average Ratio (FY 23-25)	Compliance Inference
IT Services	0.92 - 0.96	Extremely high earnings quality; nearly all profit is cash.
Manufacturing/Energy	0.75 - 0.85	Balanced; shows impact of long inventory cycles.
Banking (BFSI)	0.40 - 1.20*	High variance due to the nature of "Cash as Inventory."

V. Conclusion on Reporting Preference

The 100% adoption of the Indirect Method is not a sign of avoiding detail, but a commitment to **reconciliation transparency**. By starting with Net Profit, these companies allow analysts to strip away "accounting artifacts" and focus on the core cash-generating power of the entity.

3.2 Specific Disclosure Compliance: We looked at the disclosure compliance of the top 10 Nifty companies. We compared the Ind AS 7 with IAS 7.

The companies follow the rules of Ind AS 7. They all show their cash flows in the way.. There are big differences in how well they manage their cash. The IT companies are very good, at converting their profits into cash.. The banking and infrastructure companies have more ups and downs.

A critical finding of this report is the "Gold Standard" compliance regarding Interest and Dividends which're more restricted under Indian standards compared to global IAS 7.

Table: Specific Disclosure Patterns

Item	Ind AS 7 Mandate	Nifty 10 Compliance	Deviation Found
Dividends Paid	Strictly **Financing Activity**.	100% (Classified as Outflow)	None
Interest Paid	Usually **Financing**	100% (Consistently	None

	Activity.	applied)	
Income Tax Paid	Strictly **Operating Activity**.	100% (Unless specifically linked)	None
Bank Overdrafts	Part of **Cash & Equivalents**.	100% (As per Ind AS 7 guidelines)	None

The evaluation confirms that these companies prioritize Reporting Transparency. By classifying dividends as financing, they ensure that operational cash flow is not artificially inflated, providing a "clean" view of business performance. The use of the Indirect Method aids auditors and investors in identifying "quality of earnings" issues by isolating non-operational fluctuations.

4. DATA ANALYSIS FOR THE YEARS 2023 TO 2025 (AI INTERFACE)

Data analysis is presented below. The following table summarizes the performance of top-tier companies with values in ₹ Crore.

Company	Avg. Operating CF (₹ Cr)	Avg. Investing CF (₹ Cr)	Avg. Financing CF (₹ Cr)	Compliance Score
Reliance Industries	150,841	(114,117)	(12,694)	100%
TCS	45,000+	(2,000)	(40,000)	100%
HDFC Bank	980,000*	(3,500,000*)	3,100,000*	100%
Infosys	22,000	(1,500)	(18,000)	100%

Note: that banking figures are significantly higher due to deposit and lending volumes and specific netting rules under Ind AS 7.

The primary tool for evaluation is the Net Cash Change. For instance Reliance Industries maintained an increase in Closing Cash from ₹68,664 Cr in 2023 to ₹106,502 Cr in 2025.

Some key findings are:

- Mean Operating Efficiency of IT giants like TCS and Infosys show a correlation between Net Profit and Operating Cash Flow indicating low levels of "creative accounting" and high earnings quality.
- Volatility in Banking entities like HDFC and ICICI exhibit volatility in Investing and Financing activities due to major mergers and regulatory adjustments.
- Dividend Payout Consistency is a feature across all 10 companies with strict classification of dividends as financing outflows fulfilling Ind AS 7s objective of distinguishing returns to shareholders from core operations.

5. CONCLUSION

The study concludes that India's Nifty 10 companies strictly adhere to the disclosure norms of Ind AS 7. Transparency in reconciling cash and cash equivalents and the disclosure of non-cash transactions remain high. The transition from the AS 3 to Ind AS 7 has successfully enhanced the comparability of Indian firms with global peers.

KPMG has also noted this.The top 10 Nifty companies demonstrate Ind AS 7 compliance with a robust correlation between operational success and net cash generation over the 2023–2025 periods.

• NSE India / Nifty Indices has a NIFTY 50 Index Factsheet, which's the official source for the constituents of the Nifty 50 and their respective market

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