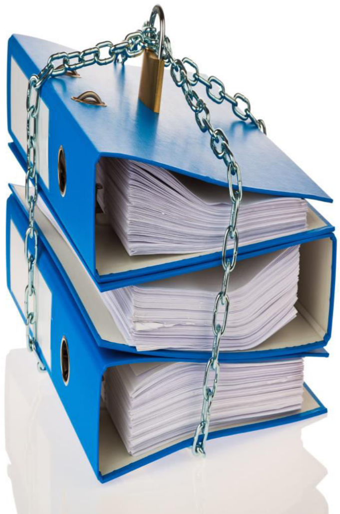
Major Impact of Ind AS & Commonly Observed Errors in Ind AS FS



Organised By:
Gurugram Branch of NIRC of ICAI
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List of Applicable Standards

Ind AS No.	Name of the Standard (Ind AS)	IFRS	IGAAP (AS)
1	Presentation of Financial Statements	IAS 1	AS 1
2	Inventories	IAS 2	AS 2
7	Statement of Cash Flows	IAS 7	AS 3
8	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8	AS 5
10	Events after the reporting period	IAS 10	AS 4
12	Income Taxes	IAS 12	AS 22
16	Property, Plant and Equipment	IAS 16	AS 10
17	Leases *(effective till financials for FY 2018-19)*	IAS 17	AS 19
19	Employee Benefits	IAS 19	AS 15
20	Accounting for Government Grants and Disclosure of Government Assistance	IAS 20	AS 12
21	The Effects of Changes in Foreign Exchange rates	IAS 21	AS 11
23	Borrowing Costs	IAS 23	AS 16
24	Related Party Disclosures	IAS 24	AS 18

List of Applicable Standards

Ind AS No.	Name of the Standard (Ind AS)	IFRS	IGAAP (AS)
27	Separate Financial Statements	IAS 27	-
28	Investments in Associates and Joint Ventures	IAS 28	AS 23
29	Financial Reporting in Hyperinflationary economies	IAS 29	-
32	Financial Instruments- Presentation	IAS 32	-
33	Earnings Per Share	IAS 33	AS 20
34	Interim Financial Reporting	IAS 34	AS 25
36	Impairment of Assets	IAS 36	AS 28
37	Provisions, Contingent Liabilities and Contingent Assets	IAS 37	AS 29
38	Intangible Assets	IAS 38	AS 26
40	Investment Property	IAS 40	AS 13
41	Agriculture	IAS 41	-
101	First time adoption of Ind AS	IFRS 1	-
102	Share based payments	IFRS 2	-
103	Business combinations	IFRS 3	AS 14

List of Applicable Standards

Ind AS No.	Name of the Standard (Ind AS)	IFRS	IGAAP (AS)
104	Insurance contracts	IFRS 4	-
105	Non Current Assets held for sale & Discontinued Operations	IFRS 5	AS 24
106	Exploration for and Evaluation of Mineral Resources	IFRS 6	-
107	Financial Instruments – Disclosure	IFRS 7	-
108	Segment Reporting	IFRS 8	AS 17
109	Financial Instruments	IFRS 9	-
110	Consolidated Financial Statements	IFRS 10	AS 21
111	Joint Arrangements	IFRS 11	AS 27
112	Disclosure of Interests in other entities	IFRS 12	-
113	Fair Value Measurement	IFRS 13	-
114	Regulatory Deferral Accounts	IFRS 14	-
115	Revenue from Contracts with Customers	IFRS 15	AS 9
116	Leases	IFRS 16	AS 19

Total 39 standards notified vide notification dated Feb 16, 2015, Mar 28, 2018 and March 30, 2019

Welcome !! to Brand New Standards

New Standards in Ind AS which were not available in IGAAP

- Ind AS 27 - Separate Financial Statements
- Ind AS 29 - Financial Reporting in Hyperinflationary Economies
- Ind AS 32 - Financial Instruments: Presentation
- Ind AS 41 - Agriculture
- Ind AS 101 - First-time adoption of Ind AS
- Ind AS 102 - Share-based Payments
- Ind AS 104 - Insurance Contracts
- Ind AS 106 - Exploration for and Evaluation of Minerals Resources
- Ind AS 107 - Financial Instruments: Disclosures
- Ind AS 109 - Financial Instruments
- Ind AS 112 - Disclosure of Interests in Other Entities
- Ind AS 113 - Fair Value Measurement
- Ind AS 114 - Regulatory Deferral Accounts

Major Impact of Ind AS

Format of financial statements has been turned upside down by showing Assets first then Equity and liabilities.

Explicit and unreserved statement of compliance with all Ind AS is required in the notes.

Third Balance Sheet will be prepared in case of retrospective adjustment of change in accounting policy, correction of errors or reclassification of items in financial statements.

Presentation of "Statement of changes in equity" as a separate statement is required under Ind AS.

Concept of "Other Comprehensive Income" in the statement of profit and loss has been introduced under Ind AS to route specified items of income and expenses outside P&L.

Ind AS requires, classification of current and non-current assets/liabilities into Financial and Non-Financial, thereby giving a holistic view of financial instruments on the face of BS.

Under Ind AS, disclosure of changes in liabilities arising from financing activities is required separately, to give a complete view of cash and non-cash movement in the liabilities.

Major Impact of Ind AS

Under Ind AS, non-adjusting events occurring after reporting period are disclosed in financial statements, whereas in IGAAP it was disclosed in report of approving authority.

Discounting of provisions is required in Ind AS, if effect of the time value of money is material, thereby leading to additional finance cost in the statement of profit and loss.

Bifurcation of Compound financial instruments like convertible debentures, convertible preference shares, leads to recognition of Equity and Liability under Ind AS, thereby changing critical financial ratios like debt/equity, Interest coverage ratio, etc.

Application of fair value concept under Ind AS requires entities and users are to monitor current market situation on a regular basis to understand the impact of the same on financial performance and position.

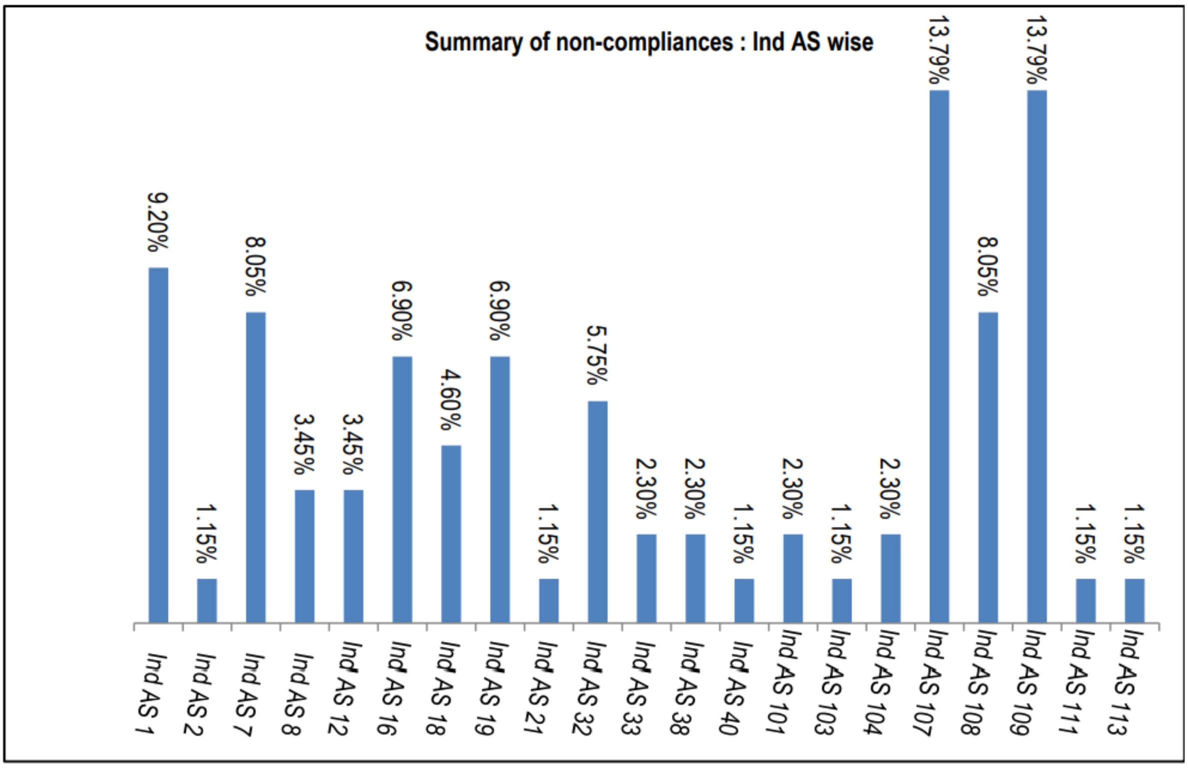
Extensive disclosures required under Ind AS as compared to AS, for example: Entity's Risk management strategy

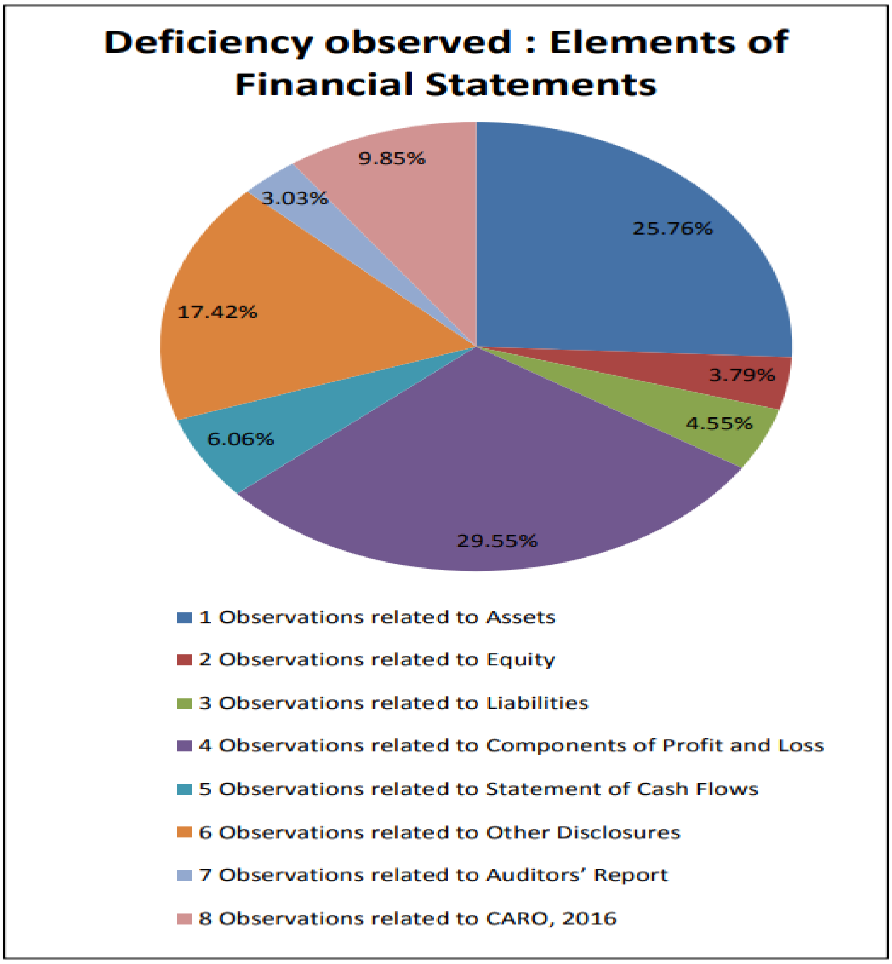
Substance of a transaction is valued over its legal form while accounting for revenue, leases, financial instruments, business combination, etc.

Ind AS requires extensive use of management judgement as these standards are principle based rather than rule based.

Additional guidance is given with respect to Financial Instruments, Share Based Payment, Agriculture, Hyperinflationary economies, Insurance contracts, Fair Value measurement, Regulatory Deferral Accounts, Service Concession Arrangement, Combination under common control, etc.

Deficiencies Observed: At a Glance





Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 1 - Presentation of Financial Statements

Presentation of Financial Statements – Nature and Purpose of reserves

Case:

In the notes to the financial statements of a company on Other equity, various reserves were disclosed like Capital Redemption Reserve, Securities Premium, General Reserve and Retained Earnings.

Principle:

Paragraphs 79 of Ind AS 1 & Guidance note on Schedule III

Observation:

It was noted from the note to the financial statements on Other Equity that there are various reserves with the company however; the nature and purpose of these reserves were not disclosed by the company in the notes to accounts.

As per the above stated requirements of Ind AS 1 and Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013, the nature and purpose of each reserve is required to be disclosed which was not given by the company.

Accordingly, it was viewed that the requirements of Ind AS 1 and the Companies Act, 2013 have not been complied with.

Presentation of Financial Statements – Loans from related parties

Case:

In the note to the financial statements of a company on Non-Current Borrowings, Loans from related parties were classified as non-current. These loans from related parties were interest free and repayment terms were not stipulated.

Principle:

Paragraphs 69 of Ind AS 1

Observation:

It was noted from the notes to the financial statements on Non-Current Borrowings that loans from related parties were classified as non-current.

It was viewed that since loans from related parties are interest free and repayment terms have not been stipulated, such loans are callable on demand.

Accordingly, the classification of such loans as non-current was not in line with the above stated requirements of Ind AS 1. Accordingly, it was viewed that the requirement of Ind AS 1 has not been complied with.

Ind AS 1 : Presentation of Financial Statements

Case:

It was noted that the interest income is shown net of interest expenses in the Statement of Profit and Loss.

Principle:

Paragraphs 32 of Ind AS 1, Para 20 of Ind AS 107 & Guidance note on Sch III

Observation:

As per paragraph 32 of Ind AS 1, **an entity shall not offset assets and liabilities or income and expenses,** unless required or permitted by an Ind AS.

Paragraph 20 of Ind AS 107 – Statement of Profit and Loss

An entity shall disclose the following items of income, expense, gains or losses either in the statement of profit and loss or in the notes:

(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not at fair value through profit or loss;

Accordingly, it was viewed that the requirements of Ind AS 107, Ind AS 1 and Guidance Note on Division II- Ind AS Schedule III to the Companies Act, 2013 have not been complied with.

Presentation of Financial Statements - Nature wise classification of expense not function wise

Case:

In the Statement of Profit and Loss of a company, expenses include the head Administrative Expenses.

Principle:

Paragraph 99 of Ind AS 1

Observation:

It was noted from the Statement of Profit and Loss that expenses includes the head "Administrative Expenses". Accordingly, it was observed that the company has classified the expenses based on functional classification instead of nature-wise classification as required by paragraph 99 of Ind AS 1.

Accordingly, it was viewed that the requirements of Ind AS 1 has not been complied with.

Presentation of Financial Statements – OCI and Tax Impact

Case:

In the Statement of Profit and Loss of a company, re -measurement of defined benefits plans not reclassified to profit or loss in subsequent periods, was shown under OCI. However, no tax impact was shown in the statement of profit and loss in respect of such re-measurement of defined benefits plans under OCI.

Principle:

Paragraph 96 of Ind AS 1 and Para 61A of Ind AS 12

Observation:

As per the requirements of paragraph 61A of Ind AS 12, current tax and deferred tax, relating to items that are recognized in OCI, shall be recognized in OCI. In other words, as re-measurement of defined benefit plans has been recognized in OCI and are not reclassified to profit or loss in subsequent periods, therefore, its tax impact should also be disclosed under the same head i.e., OCI.

Accordingly, it was viewed that the requirements of Ind AS 1 and Ind AS 12 have not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 2 - Inventories

Ind AS 2 : Inventories

Case:

In the Annual Report of a company , the accounting policy on Inventory was stated as follows:

"Inventories are valued at the lower of cost and fair value "

Principle:

Paragraph 6 of Ind AS 2 gives definition of NRV & para 9 of Ind AS 113 (Fair Value Measurement) defines fair value. It was viewed that the NRV is different from the fair value of inventories. **The NRV is entity-specific value whereas the fair value is not entity-specific. Hence, both may not be same.**

Observation:

It was viewed that NRV of inventory refers to the net amount (estimated selling price Less estimated cost of completion and estimated cost of sale) that an entity expects to realise from the sale of inventory in the ordinary course of business whereas the fair value reflects the price at which an orderly transaction in the principal (or most advantageous) market would take place between market participants at the measurement date to sell the same inventory.

Accordingly, **inventories are to be valued at the lower of the cost or NRV and not the fair value** and therefore, the stated policy on inventory valuation is not in line with the requirements of Ind AS 2.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 7 – Statement of Cash Flows

Ind AS 7 : Statement of Cash Flows

Case:

From the Cash Flow Statement as given in an Annual Report of a company, it was observed that the cash paid to purchase the property, plant and equipment has been disclosed as *"capital expenditure"*, under the head cash flow from Investing activities

Principle:

Paragraph 16 of Ind AS 7

Observation:

It was noted that such **outflow should have been reported using the proper description of the line item viz. 'acquisition of property, plant and equipment' rather than as 'capital expenditure'** in line with the paragraph (16)(a) of Ind AS 7.

Accordingly, it was viewed that the requirement of Ind AS 7 has not been appropriately complied with.

Ind AS 7 : Statement of Cash Flows

Case:

In the Statement of Profit and Loss of a company, income tax expense relating to current year and tax adjusted for earlier years was shown. Exact amount was disclosed by the company as income tax paid in its cash flow statement.

Principle:

Paragraph 35 & 36 of Ind AS 7

Observation:

It was noted that the income tax expense as disclosed under Statement of Profit and Loss was same as disclosed in cash flow statement as income tax paid.

Considering the balances of provision for taxation and advance tax appearing in balance sheet, it was viewed that both the amounts could not be same. In the Statement of Cash Flow, actual amount of income tax paid by the company should have been disclosed.

Accordingly, it was viewed that the requirements of Ind AS 7 have not been complied with.

Ind AS 7 : Statement of Cash Flows

Case:

From the cash flow statement, it was observed that the total amount of repayment of borrowings as appearing under the financing activities is lesser than the difference between the closing and opening balance of borrowings as appeared in the Balance Sheet.

Principle

Paragraph 43 and 44A to 44E of Ind AS 7

Observation

It was viewed that if there is any change in liabilities arising from cash flows and non cash changes the same should be disclosed in the financial statements in such a way that provides all the relevant information about this financing activity as required in paragraph 43 read with para 44A to 44E of Ind AS 7.

Accordingly, it was viewed that the requirement of Ind AS 7 has not been complied with.

Non - Compliance of Indian Accounting Standard (Ind AS)

Ind AS 8 - Accounting Policies, Change in Accounting Estimates & Errors

Ind AS 8 : Accounting Policies, Change in Accounting Estimates & Errors

Case:

In the Annual Report of a company , the accounting policy for “Leasehold Land" had been reported as under :

“The lease term in respect of leasehold land is 97 years. The lease term in respect of land acquired under finance lease is up to 97 years with ability to opt for renewal of lease term and fulfillment of certain conditions.”

Principle:

Paragraph 7 of Ind AS 8

Observation:

From the above disclosure, it was noted that the company has finance lease. However, specific accounting policy for the finance lease has not been disclosed. **In absence of accounting policy, principles, bases, conventions, rules and practices applied by the enterprise in preparing and presenting the financial statements, the recognition and disclosure of finance lease is not clear.**

It was viewed that the accounting policy for finance lease should be disclosed for the understanding of the users of the financial statements.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 12 - Income Taxes

Ind AS 12 : Income Taxes

Case:

Under the accounting policy related to the deferred tax assets & liabilities, it was stated that the changes in them is attributable to temporary differences.

Principle:

Paragraph 5 of Ind AS 12

Observation:

It was noted that the accounting policy erroneously mentions that both deferred tax assets and liabilities are attributable to temporary differences and unused tax losses.

As per the definitions of deferred tax assets and deferred tax liabilities given under Ind AS 12, it was noted that deferred tax liabilities are recognised for taxable temporary differences and deferred tax assets are recognised for:

(a) deductible temporary differences;

(b) the carry forward of unused tax losses; and

(c) the carry forward of unused tax credits.

Accordingly, it was viewed that the stated policy of the company is not in line with requirements of Ind AS 12.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 16 - Property ,Plant and Equipment

Ind AS 16 : Property, Plant & Equipment

Case:

The accounting policy on Property, Plant and Equipment of a company states that the subsequent expenditure related to an item of PPE is added to its carrying value, only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance.

Principle:

Paragraph 7 & 13 of Ind AS 16

Observation:

It was viewed that as per paragraph 13 of Ind AS 16 , the **subsequent expenditure would be recognized in the carrying amount of PPE when that cost/ expense would meet the recognition criteria i.e., cost can be measured reliably and it is probable that the future benefits will flow to the company** .

Accordingly**, capitalisation of subsequent expenditure on the basis of ''increase of future benefits from the existing asset beyond previously assessed standard of performance'' is not in line with the requirement of Ind AS 16.**

Ind AS 16 : Property, Plant & Equipment

Case:

The Accounting Policy of Property, Plant and Equipment of a company states that the depreciation on leasehold improvements is provided over the **primary period of lease** or over the useful lives of the respective fixed assets, whichever is shorter.

Principle:

Paragraph 50 & 56 of Ind AS 16

Observation:

It was viewed that as per paragraph 50 read with 56 of Ind AS 16 various factors are considered in determining the useful life of an asset which, interalia, includes legal limits on the use of asset such as the expiry dates of related asset. Accordingly, depreciation on leasehold improvement, '**over lease term'** should be considered instead of considering '**primary period of lease'**. Therefore, it was viewed that the stated accounting policy is not in line with Ind AS 16.

Ind AS 16 : Property, Plant & Equipment

Case:

From the notes to the account of the financial statements it was noted that no movement in the CWIP were disclosed although the details of various items of PPE have been disclosed by the company.

Principle:

Paragraph 74(b) of Ind AS 16

Observation

It was viewed that since the **CWIP is also the part of PPE and therefore the amount of expenditures recognized in the carrying amount of CWIP should have been disclosed by the company in line with the paragraph 74(b) of Ind AS 16.**

The same view, as to capital-work-in-progress be treated as PPE, was taken by the Ind AS Transition and Facilitation Group (ITFG) of ICAI and can be referred from issue number 33 of Compendium of ITFG Clarification Bulletins, December 2018 edition.

Ind AS 16 : Property, Plant & Equipment

Case:

Abstract of an accounting policy on Property, Plant and Equipment reads as follows:

"All project related expenses viz. civil works, machinery under erection, construction and erection materials, pre-operative expenditure net of revenue incidental/attributable to the construction of project, borrowing cost incurred prior to the date of commercial operations are shown under Capital Work in Progress (CWIP)".

Principle:

Paragraph 20 of Ind AS 16

Observation

It was noted that all the project related expenses which have been incurred prior to the date of commercial operations have been capitalised.

As per paragraph 20 of Ind AS 16, recognition of costs in the carrying amount of PPE ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Hence capitalising expenses incurred upto the date of commercial operations is not in line with Ind AS 16 and Accordingly, it was viewed that the above-statement requirement of Ind AS 16 has not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 19 - Employee Benefits

Ind AS 19 : Employee Benefits

Case: The accounting policy for employee benefit states as follows with regard to defined contribution plan ('DCP') :

"Defined Contribution Plans such as Provident Fund etc., are charged to the Statement of Profit and Loss Account as incurred. Further for certain employees, the monthly contribution for Provident Fund is made to a Trust administered by the Company. The interest payable by the Trust is notified by the Government. ***The Company has an obligation to make good the shortfall, if any."***

Principle:

Paragraph 8 of Ind AS 19.

Observation:

It was noted from the accounting policy of the company on employee benefits that under DCP such as provident fund, the company has an obligation to make good the shortfall, if any.

As per the definition of DCP, it was viewed that employer's liability to the employee is limited to the amount of contribution & has no further obligation to pay beyond agreed contribution.

Accordingly, it was viewed that if the company has an obligation to make good any shortfall, the said plan cannot be considered as DCP as per Ind AS 19 and hence, it was viewed that the requirements of Ind AS 19 have not been complied with in preparation and presentation of the financial statements.

Ind AS 19 : Employee Benefits

Case:

In the notes to the financial statements of a company on Employee benefits under Actuarial assumptions, disclosure of mortality rate was not found.

Principle:

Paragraph 57 & 147 of Ind AS 19.

Observation:

It was viewed that the disclosure of mortality rate constitutes a part of the actuarial assumptions, however, the same has not been given, which is required to be disclosed as per paragraph 147 read with para 57 (a) (i) of Ind AS 19.

Accordingly, it was viewed that the requirements of Ind AS 19 have not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 21- The Effects of Changes in Foreign Exchange Rates

Ind AS 21 : The effects of changes in foreign exchange rates

Case:

From the accounting policy with regard to foreign currencies, it was noted that the exchange difference on monetary items related to foreign operations are initially recognized in OCI and **reclassified from equity to Statement of Profit and Loss on repayment of monetary items.**

Principle:

Paragraph 32 of Ind AS 21

Observation:

It was viewed that as per paragraph 32 of Ind AS 21 **reclassification from equity to Statement of Profit and Loss should have been made on disposal of net investment instead of repayment of the monetary items.**

Accordingly, it was viewed that the requirement of Ind AS 21 has not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 23- Borrowing Costs

Ind AS 23 : Borrowing Costs

Case:

Abstract of accounting policy on Borrowing Cost read as follows:

Borrowing Costs directly attributed to the acquisition of fixed assets are capitalized as a part of the cost of asset up to the date the asset is put to use. Other Borrowing Costs are charged to the statement of profit and loss account in the year in which they are incurred.

Principle:

Paragraph 8 & 22 of Ind AS 23

Observation:

It was noted from the stated accounting policy of the company that borrowing costs directly attributable to the acquisition of fixed assets are capitalised. **As per paragraph 8 of Ind AS 23, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised.**

In addition, it was noted that borrowing costs were capitalized which were incurred upto the date the asset is put to use. **As per paragraph 22 of Ind AS 23, borrowing costs should be capitalized till the asset is ready for its intended use or sale.** Hence, capitalization of expenses incurred upto the date the asset is put to use is not in line with Ind AS 23.

Accordingly, it was viewed that the requirements of paragraph 8 & 22 of Ind AS 23 have not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 24 – Related Party Disclosures

Ind AS 24 : Related Party Disclosures

Case:

In the disclosure related to RPT, holding Company gave following disclosures:

“Holding Company has issued Corporate Guarantee as a security for loan availed by Subsidiary company.

Principle:

Paragraph 18 of Ind AS 24

Observation:

It was noted that a subsidiary company had received borrowings from financial institutions, but the details and terms and conditions of the borrowing is not available in the FS of subsidiary and FS of holding company were referred for additional details.

AS per the FS of holding company, it was noted that holding company had issued corporate guarantee as a security for loan availed by the subsidiary from financial institutions. However, neither the guarantee commission was recognized under Ind AS 109 nor the disclosures under Ind AS 24 were made in FS of subsidiary company.

Accordingly, it was viewed that the requirements of Ind AS 24 and Ind AS 109 have not been complied with by the subsidiary company.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 32 - Financial Instruments: Presentation

Ind AS 32 : Financial Instruments : Presentation

Case:

The following disclosures have been made in the Notes to Accounts

- Interest accrued has been disclosed under 'Non-financial assets'.
- Prepaid expenses and balances with revenue authorities were shown as financial assets

Principle:

Paragraph 11 of Ind AS 32

Observation:

It was viewed that **interest accrued is in nature of financial asset as defined under paragraph 11 of Ind AS 32, and hence, should be shown under the head of Financial Assets.**

Further, **Prepaid expenses and balances with revenue authorities** are in the nature of non financial assets and hence disclosed under the head of non financial assets.

Accordingly, it was viewed that the requirements of Ind AS 32 have not been complied with.

Ind AS 32 : Financial Instruments : Presentation

Case:

It was noted that investment in the shares of listed and unlisted companies have been shown by the company under 'Inventories' in the financial statements. It was further noted that this company was not an investment company.

Principle:

Paragraph 11 of Ind AS 32

Observation:

It was viewed that investment in shares of other companies are in the nature of financial assets and should therefore be recognised and disclosed in the books as Financial assets in line with para 11 of Ind AS 32.

Accordingly, it was viewed that due to incorrect disclosure of investment in shares, inventories have been overstated and investment have been understated which does not give true picture of the financial position of the company.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 33 – Earnings Per Share

Ind AS 33 : Earnings Per Share

Case:

Following issues were observed in the Financial Statements

- Number of shares that were issued during the year were considered as the weighted average number of shares while calculating the EPS.
- OCI amount included while calculation of EPS.
- Numerator and denominator not disclosed properly.

Principle:

Paragraph 10, 19 & 70 of Ind AS 33

Observation:

The following observations were noted from the note to the financial statements on EPS:

1. Number of shares that were issued during the year were considered as the weighted average number of shares while calculating EPS and not the weighted average number of ordinary shares outstanding during the period. Hence, the calculation of EPS was incorrect.

2. In the given case, net profit after tax including impact of OCI, was divided by number of shares issued during the year. Both numerator as well as denominator used for EPS calculation was incorrect. However, as per the requirements of paragraph 10 of Ind AS 33, profit attributable to ordinary equity holders shall be considered for the calculation of EPS.

3. Further, the disclosures as required under paragraph 70 (a) and (b) of Ind AS 33 were also not given in the notes to the financial statements.

Accordingly, it was viewed that the requirements of Ind AS 33 have not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 38 - Intangible Assets

Ind AS 38 : Intangible Assets

Case:

From the annual report of a company, it was noted that the accounting policy on Research and Development states as follows:

"Research and Development expenditure is charged to revenue under the natural heads of account in the year in which it is incurred. Research and Development expenditure on property, Plant and Equipment is treated in the same way as expenditure on other property, plant and equipment."

Principle:

Paragraph 54 & 57 of Ind AS 38

Observation:

As per Ind AS 38, Intangible Assets, the expenditure on research and development is classified into the expenditure on research phase and development phase.

Expenditures on research phase should be recognised as an expense immediately as per paragraph 54 and expenditure on development phase should be recognised as an intangible asset, if the recognition criteria given in paragraph 57 of Ind AS 38 are satisfied.

Accordingly, it was viewed that the requirements of Ind AS 38 have not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 40 – Investment Property

Investment Property - Depreciation not charged on investment property in reporting period

Case:

In the note to the financial statements of a company on Investment Properties, disclosure of investment properties was given. Depreciation on investment properties was not charged in the reporting year but the depreciation on such investments properties was charged during the comparative year.

Principle:

Paragraph 79 of Ind AS 40

Observation:

It was noted that the company has investment properties but the depreciation has not been charged on these properties during the reporting year.

It was viewed that as per the principles of Ind AS 40, an investment property is measured initially at cost. Under the cost model, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses and Fair value is disclosed in notes to accounts. Accordingly, depreciation should have been charged on these properties and debited to Statement to Profit and Loss.

Accordingly, it was viewed that the requirements of Ind AS 40 have not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 101 - First-time Adoption of Indian Accounting Standards

Ind AS 101 : First time adoption of Indian Accounting Standards

Case:

From the annual report of a company, it was noted that the statement of Ind AS Adjustments showing Reconciliation of IGAAP vs Ind AS has not been given anywhere in the notes to the accounts.

Principle:

Paragraph 23 read with 24 and 25 of Ind AS 101

Observation:

It was viewed that **the company should explain how transition from previous GAAP to Ind AS affected financial statements by providing reconciliation of equity, total comprehensive income and recognition/reversal of impairment losses if any**. This shall give sufficient detail to enable users to understand the material adjustments to the Balance Sheet and Statement of profit and loss.

Accordingly, it was viewed that the requirement of Ind AS 101 has not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 103 - Business Combinations

Business Combinations - Transaction Cost

Case:

In the annual report of a company, the accounting policy with regard to Business Combinations reads as follows:

*"The acquisition related costs are **generally** recognized in statement of profit or loss as incurred".*

Principle:

Paragraph 53 of Ind AS 103

Observation:

It was observed that the wordings ***generally*** should not be used. **It was viewed that the acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received** as required by paragraph 53 of Ind AS 103.

Accordingly, it was viewed that the language of the policy is not in line with the requirements of Ind AS 103.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 107 - Financial Instruments:
Disclosures

Ind AS 107 : Financial Instruments – Disclosures

Case:

In the Note on Non-current Investments, the company has disclosed certain investments in the equity shares as valued at fair value through OCI. However, the disclosures as required by Ind AS 107 were not made.

Principle:-

Paragraph 11A of Ind AS 107

Observation:

It was noted that the investments in equity shares of some companies have been fair valued through OCI (FVTOCI). However, **the reason for using the FVTOCI alternative has not been disclosed**. It is not in line with the requirement of paragraph 11A(b) of Ind AS 107.

Accordingly, it was viewed that the requirement of Ind AS 107 has not been complied with.

Ind AS 107 : Financial Instruments – Disclosures

Case :

In the notes to the accounts , under the heading " Financial Risk Management", sub heading "exposure to liquidity risk", the company has given the maturity analysis of financial liabilities only.

Principle:

Paragraph B 11E of Ind AS 107

Observation:

It was viewed that **while giving disclosure regarding the "exposure to liquidity risk", maturity analysis of financial assets it holds for managing liquidity risk, has to be disclosed.** Given disclosure is therefore not complete and is not in line with the requirement of paragraph B 11 E of Ind AS 107.

Ind AS 107 : Financial Instruments – Disclosures

Case:

Under the notes to the accounts regarding non-current liabilities, the defaults in the payment of principal and interest have been disclosed in the financial statements. However, from the auditor's report it was noted that these defaults were remedied before the approval date of the financial statements.

Principle:

Paragraph 18(c) of Ind AS 107.

Observation:

It was observed that the **details of defaults remedied before the date of approval of the financial statements has not been disclosed in the financial statements (although reported in auditor's report).** This is not in line with the requirement of paragraph 18 (c) of Ind AS 107.

Ind AS 107 : Financial Instruments – Disclosures

Case:

Under the Note on Non-Current Assets, a line item 'Receivables from Redeemable Preference Shares' have been disclosed. From another note, it was noted that this asset has been recognised at amortised cost.

Principle:

Paragraph 20 of Ind AS 107

Observation:

It was noted that Receivable from Redeemable Preference Shares given under Financial Assets and have been recognized at amortised cost. However, interest income on '**Financial Assets that are not at fair value through profit or loss' has not been disclosed separately, which is not in line with the requirement of paragraph 20 of Ind AS 107.**

Ind AS 107 : Financial Instruments – Disclosures

Case:

From Note on Trade Receivables given under Financial Assets, it was noted that the majority of the amount was due from related parties. Further, it was noted that under Note related to Financial Risk Management, it is stated that no credit risk was involved.

Principle:

Paragraph 35M of the Ind AS 107

Observation:

It was noted from the above stated disclosure on Financial Risk Management that the trade receivables consisted of significant amount of receivable from the related party, for which it was only stated that no credit risk is involved.

It was viewed that **information as required by paragraph 35M of Ind AS 107 regarding the Financial Assets for which loss allowance is measured at an amount equal to 12-month expected credit losses or for which loss allowance is measured at lifetime expected credit losses, have not been disclosed**.

Accordingly, it was viewed that the requirements of Ind AS 107 have not been complied with.

Ind AS 107 : Financial Instruments – Disclosures

Case:

Incomplete disclosure was given in the note related to Financial Risk Management in the Financial Statements of a company.

Principle:

Paragraph 35A to 35N of Ind AS 107

Observation:

The following discrepancies have been noted with regard to disclosure under Note related to Financial Risk Management in pursuance to the requirement of Ind AS 107:-

i. It was noted that the **method to measure expected credit losses has not been disclosed** which is not in line with the requirement of paragraph 35B (a) of Ind AS 107.

ii. It was noted that the **entity's definition of default with regard to trade receivable is not disclosed** which is not in line with the requirement of paragraph 35F (b) of Ind AS 107.

iii. Further, it was noted that **detailed credit risk disclosure has been given for trade receivables only. It was viewed that non-disclosure of credit risk for other financial assets is not in line with the requirement of paragraph 35 H, 35I, 35J, 35K, 35 L, 35M of Ind AS 107.**

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 108 - Operating Segments

Ind AS 108 : Operating Segments

Case:

It was noted from accounting policy on segment reporting that the company had identified business segment as **primary segment.**

Principle:

Paragraph 11 of Ind AS 108.

Observation:

It was noted from accounting policy for segment and note on Segment disclosures that the company has identified **business segment as primary segment which was required in AS 17** (IGAAP). **It was viewed that as per Ind AS 108, the company needs to identify operating segments and to report information for each operating segment**. It was further noted that the disclosures have also been given as per AS 17 (IGAAP). It was viewed that as per Ind AS 108, the company needs to identify operating segments and to report information for each operating segment.

Further, following discrepancies have been noted with regard to reporting of amount under segment disclosure (which is given as per AS 17):

- The total amount of segment assets and unallocated assets is not matching with the total of asset side of balance sheet.
- Similarly, total amount of segment liabilities and unallocated liabilities is not matching with the total of liabilities side of balance sheet.

Accordingly, it was viewed that the requirement of Ind AS 108 has not been complied with.

Ind AS 108 : Operating Segments

Case:

In the Annual Report of a Company, Segment disclosure read as follows:

The Company's business activity falls within a single primary business segment, hence, the disclosure requirement of Ind AS 108 Operating Segment is not applicable. Further the Company does not meet the quantitative threshold as mentioned in Ind AS 108 and hence separate disclosure is not required.

Principle:

Paragraph 13 read with 5 and 31 of Ind AS -108

Observation:

It was noted from Note on Operating Segments that it has been stated that the Company does not meet the quantitative threshold as mentioned in Ind AS 108 and hence separate disclosure is not required. It was viewed that the **quantitative threshold as mentioned in Para 13 of Ind AS 108 is not the only criteria, rather three characteristics as described in paragraph 5 of Ind AS 108 should be considered to identify operating segments.** Further, if the Company's business activity falls within a single reportable segment then disclosures as required by Paragraph 31 of Ind AS 108 need to be made.

Accordingly, it was viewed that the requirements of Ind AS 108 have not been complied with.

Ind AS 108 : Operating Segments

Case:

The note with regard to the Segment Reporting read as follows *"Company operates in a Single Primary Segment".*

Principle:

Paragraph 20 read with paragraph 21and 22 of Ind AS 108.

Observation:

It was viewed that adequate **disclosures of factors used to identify the reportable segment, judgments made by the managements in applying aggregation criteria etc. should have been clearly made by the company** in line with para 20, 21 and 22 of Ind AS 108.

Ind AS 108 : Operating Segments

Case:

In the annual report of a company , it was disclosed under Segment Information that the company is engaged in the single reporting segment. Hence there is no requirement of separate disclosure under Ind AS 108.

Principle:

Paragraph 31 read with para 32 to 34 of Ind AS 108.

Observation:

It was viewed that although the company is engaged in the single reporting segment, paragraph 31 of Ind AS 108 is applicable on single segment entities also. However, the required disclosures has not been made by the company.

Accordingly, it was viewed that the requirement of Ind AS 108 has not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 109 - Financial Instruments

Ind AS 109 : Financial Instruments

Case:

Under the Contingent liabilities, it was disclosed that the "letter of comfort to banks" has been given by the company against credit facilities availed by the subsidiaries and 'corporate guarantee given to banks' towards the credit facilities / financial assistance given to the associate.

Principle:

Paragraph B2.5 and 4.2.1 (c)of Ind AS 109

Observation:

It was viewed that **both these items by their nature, are financial guarantees** and therefore should have been disclosed as such by the company.

It was further viewed that a significant feature of a financial guarantee contract is the contractual obligation to make specified payment in case of default by the credit holder. As such, the contract may not necessarily be called as financial guarantee contract and it may take any name or legal form, however the treatment will be same as that of a financial guarantee contract. If a contract legally meets these requirements, then it would be accounted for as the financial guarantee contract as per Ind AS 109.

Accordingly, it was viewed that, in the given case, **the letter of comfort as well as the corporate guarantees given in support of the credit facilities / financial assistance availed by the subsidiaries and associates of the company should have been recognized in the books as per Ind AS 109. Initial recognition should be at fair value and subsequently it should be measured as provided in para 4.2.1(c).**

Ind AS 109 : Financial Instruments

Case:

In the Annual report of a company, disclosure regarding Loans to Subsidiaries, Associates and Others read as follows:

"In respect of few of its subsidiaries efforts are being made to recover the loans, however due to financial weakness of those subsidiaries they are unable to repay and regularize the Loans."

Principle:

Paragraph 5.5.1 of Ind AS 109

Observation:

It was noted that the financial condition of some of the subsidiaries is weak, which indicates that under Ind AS 109, loans to those entities are impaired and an expected credit loss should have been recognised in the books. However, **no provision has been made for expected credit loss on these financial assets. It is not in line with the requirement of paragraph 5.5.1 of Ind AS 109.**

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 111 – Joint Arrangements

Ind AS 111 : Joint Arrangements

Case:

Under the footnote to the note on non current financial assets the company had disclosed the details of arrangements and share of assets regarding a 'Joint operation Agreement' executed with another entity.

Principle:

Paragraph 20 of Ind AS 111

Observation:

It was noted from the footnote under note to the financial statements on Non Current Financial Assets that the company had entered into a joint operation with another company and has disclosed the details of arrangements and share of assets. However, the company did not recognise the obligation for liabilities, expenses and did not account for revenue pertaining to its joint operations.

Accordingly, it was viewed that the requirements of Ind AS 111 have not been complied with.

Non - Compliance of Indian Accounting Standard(Ind AS)

Ind AS 113 - Fair Value Measurement

Ind AS 113 : Fair Value Measurement

Case: Under the Accounting policy with regard to Fair value measurement, it was stated that all the financial assets and liabilities of the company has been grouped under Level 2. Moreover, the information about the valuation technique and the inputs used for the fair value measurement has not been disclosed.

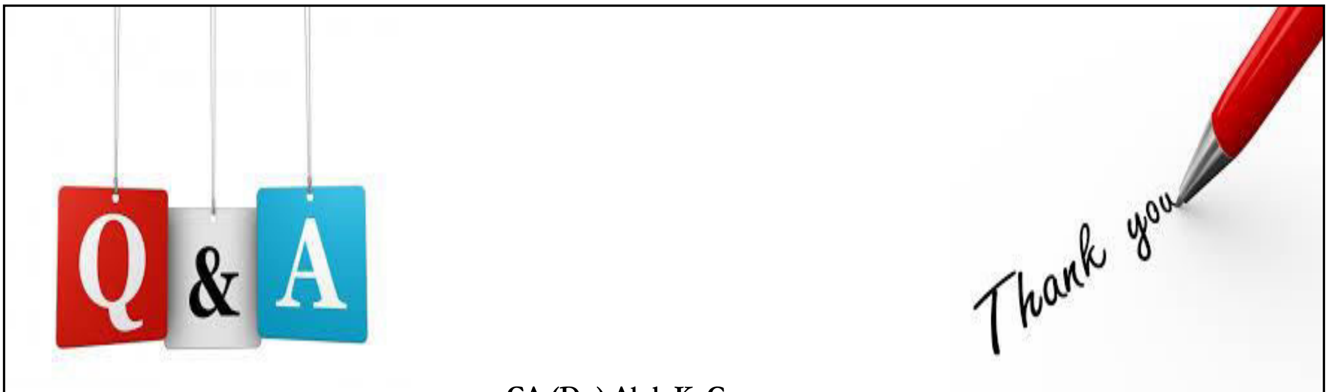
Principle:

Paragraph 93 (b) and 93(d) of Ind AS 113

Observation:

Considering the provisions of Para 93(d), it was viewed that **fair value measurements categorized within Level 2 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement should be disclosed.**

Accordingly, it was viewed that the requirement of Ind AS 113 has not been complied with.



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