Applicability of AS

Accounting Standards	To all Corporate Entities [As per Companies (Accounting Standard)Rules]	To all Non – Corporate entities [As per ICAI Accounting Standard]
AS 1 Disclosure of Accounting Policies	Y	Y
AS 2 Valuation of Inventories	Y	Y
AS 3 Cash Flow Statements	Applicable to Non SMC only	Applicable to Level I Enterprise only
AS 4 Contingencies and Events Occurring After the Balance Sheet Date	Y	Y
AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	Y	Y
AS 6 Depreciation Accounting	Y	Y

Applicability of AS Cont'd

Accounting Standards	To all Corporate Entities [As per Companies (Accounting Standard)Rules]	To all Non – Corporate entities [As per ICAI Accounting Standard]
AS 7 Construction Contracts (Revised 2002)	Y	Y
AS 9 Revenue Recognition	Y	Y
AS 10 Accounting for Fixed Assets	Y	Y
AS 11 The Effects of Changes in Foreign Exchange Rates (Revised 2003)	Y	Y
AS 12 Accounting for Government Grants	Y	Y
AS 13 Accounting for Investments	Y	Y
AS 14 Accounting for Amalgamations	Y	Y

Applicability of AS Cont'd

Accounting Standards	To all Corporate Entities [As per Companies (Accounting Standard) Rules]	To all Non – Corporate entities [As per ICAI Accounting Standard]
AS 15 Employee Benefits **(#)**	Y	Y
AS 16 Borrowing Costs	Y	Y
AS 17 Segment Reporting	Applicable to Non SMC only	Applicable to Level I Enterprise only
AS 18 Related Party Disclosures	Y	Applicable to Level I Enterprise only
AS 19 Leases **(#)**	Y	Y
AS 20 Earnings Per Share **(#)**	Y	Y

(#) Some relaxations in Recognition & Measurement (AS 15 only) and Disclosure requirements under this AS given to SMC; Level II & III Enterprises

Applicability of AS Cont'd

Accounting Standards	To all Corporate Entities [As per Companies (Accounting Standard)Rules]	To all Non – Corporate entities [As per ICAI Accounting Standard]
AS 21 Consolidated Financial Statements	Applicable to Non SMC	Applicable to Level I Enterprise
AS 22 Accounting for Taxes on Income	Y	Y (From 1/4/2006)
AS 23 Accounting for Investments in Associated in Consolidated Financial Statements	Applicable to Non SMC	Applicable to Level I Enterprise
AS 24 Discontinuing Operations	Y	Applicable to Level I Enterprise
AS 25 Interim Financial Reporting **(#)**	Y	Y
AS 26 Intangible Assets	Y	Y

Applicability of AS Cont'd

Accounting Standards	To all Corporate Entities [As per Companies (Accounting Standard)Rules]	To all Non – Corporate entities [As per ICAI Accounting Standard]
AS 27 Financial Reporting of Interests in Joint Ventures (to the extent of requirement relating to Consolidated Financial Statements	Applicable to Non SMC	Applicable to Level I Enterprise
AS 28 Impairment of Assets **(#)**	Y	Y From 1/4/06 for Level II and From 1//4/08 for Level III
AS 29 Provisions, Contingent Liabilities and Contingent Assets **(#)**	Y	Y

(#) Some relaxations in Recognition & Measurement (AS 15 only) and Disclosure requirements under this AS given to SMC; Level II & III Enterprises
Enterprises not disclosing information based on exemption/ relaxations should disclose the fact

Cash Basis vs. Accrual Basis

- If **Statute** so **requires** Accrual Basis of accounting, to be followed
- If No Statutory requirement, Cash Basis can be followed however
  - Describe it in Audit Report (Without Qualification)
  - Compliance with Accounting Standards based on basis of Accounting followed
- Example of disclosure in Audit Report for following cash basis of Accounting

  "It is the policy of the Entity to prepare its financial statements on cash receipts and disbursements basis. On this basis, the revenue and related assets are recognised when received rather than when earned, and expenses are recognised when paid rather than the obligation is incurred''

ISSUES

AS -1 Disclosures of Accounting Policies

- All/ some significant **accounting policies** adopted in the preparation of accounts:
  - Not disclosed - needed to be disclosed for proper understanding of the financial statements by the user
- **Timing of Recognition of Revenue** from Sales, Interest, Royalty, Dividend (in case of Mercantile basis of accounting) **not disclosed**
- In FSs of companies, disclosure of AS notified under Companies (Accounting Standard) Rules 2006 *(now Companies (Accounts) Rules, 2014)* not given or inappropriately given as AS notified by ICAI in case of Company

  In FSs of firms, reference of ICAI is ok
- **Incorrect Interpretation:** "The unrealised loss on outstanding derivative contracts had not been recognised in the books, considering the principles of prudence as enunciated in AS 1."

ISSUES – Cont'd

AS -1 Disclosures of Accounting Policies

- Basis of preparation of accounts make no reference to the framework e.g. no reference to Accounting Standards.
- Accounting policies not properly worded for e.g.
  - ✓ 'Investments valued at cost', without mentioning 'current' and 'long term'
  - ✓ For Deferred Taxes mention of '**significant** future taxable income' to be avoided instead of '**sufficient** future taxable income' as per AS 22
  - ✓ Policy mentions Non-banking assets are disclosed at cost.
- Incomplete/ambiguous/unclear policy should be avoided
  - ✓ e.g. Income from derivative transactions designated as hedge is recorded on an accrual basis –policy not clear.
- No policy given on accounting for scrap sales, conversion income etc. though the amount was material

ISSUES – Cont'd

AS -2 Valuation of Inventory

Generally Observed Discrepancies:

- ➢ Raw material (RM), work in progress (WIP), stores, spares, packaging material, etc. **valued at 'Cost'**
- ➢ Finished Goods (FG) valued at NRV [Paragraph 5]
- ➢ FG/ RM/ WIP is valued at cost instead of lower of cost or Market Value/ Realisable Value
- ➢ Inventories valued at Moving Average method - Standard prescribes basis of measurement of inventories can be FIFO or Weighted Average method

- Accounting policy of Construction Company "Constructed buildings and related equipment's are valued at cost less depreciation"
- Cost formula employed is not mentioned i.e. FIFO or WAC or SI (Paragraph 26)
- Components of Cost not clearly disclosed (Prime cost [Purchase Cost, Cost of Labour, Other Direct Costs] + Direct Overheads etc)

– to be disclosed

- Treatment of Customs Or Excise Duty (for valuation of inventories)not appropriate. Eg – Accounted on clearance & hence liability not provided at the year end and not included in inventory (Paragraph 6)

ISSUES – Cont'd

AS -2 Valuation of Inventory

- **Inventory valuation of WIP and FG on 'specific Identification' method**

  The product was an interchangeable item of inventory and hence should have been valued at either FIFO or Weighted Average Cost method. As per AS 2, specific identification of cost "is an appropriate treatment for items that are segregated for a specific project, regardless of whether they have been purchased or produced. **However, when there are large numbers of items of inventory which are ordinarily interchangeable, specific identification of costs is inappropriate since, in such circumstances, an enterprise could obtain predetermined effects on the net profit or loss for the period by selecting a particular method of ascertaining the items that remain in inventories."**

- Provision for slow moving items disclosed as a reduction from inventory
  - – Should be disclosed as an adjustment to arrive at NRV. As per AS-2, Inventory is to be valued at lower of cost and NRV

ISSUES – Cont'd

AS -2 Valuation of Inventory

▪**Generally observed non-inclusion in the policy** - Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

▪**Valuation of stock transfer at transfer price**

- This may result in the recognition of unrealized profits in the financial statements, which is against the concept of prudence and the generally accepted accounting principle.

▪In certain cases, stock of land has been included as an item of closing stock (inventory) without disclosing the method of valuation.

▪In many Companies the Schedule of inventories mentions "**as taken, valued and certified by the management**". The use of these words have to be stopped / avoided.

ISSUES – Cont'd

AS -3 Cash Flow statement

- Significant difference observed in amount of Cash and Cash equivalents and Cash and Bank Balances as reported in the CFSs and schedule of Cash and Bank Balances respectively
- Schedule of Cash and Bank Balances include "The balances of Unclaimed Dividend Account, Margin money account and fixed deposit which is under lien with banks."
- Cash & Cash Equivalents include deposits with maturity over twelve months
- Loan taken / repaid, Advance given to Subsidiaries, &Purchase/Sales of Investments, disclosed on a net basis
- Dividends paid are cash flow from financing activities & not operating / investing activities (Other than NBFCs). Even tax on dividend should be disclosed along with the dividends paid

ISSUES – Cont'd

AS -3 Cash Flow statement

- Unrealised foreign exchange difference recognised in P&L, but not disclosed in CFSs
- Investments in Bank fixed deposit and Mutual Fund disclosed as Cash Flow from "Operating Activities" instead of cash flow from investing activities or cash & cash equivalent
- Movements in both Advances and Borrowings shown as adjustments under 'Cash Flow from Operating Activities'.
  - As per the Expert Advisory Committee, movements in Borrowings should form part of 'Cash flow from Financing Activities' in terms of paragraph 17(b).
- Non-disclosure of non-cash items such as provisions and contingencies to arrive at Cash Flow from Operations

ISSUES – Cont'd

AS - 4 Contingencies & Events Occurring After Balance Sheet Date

- Disputed Taxes (though paid) or claim which is not yet settled not disclosed as Contingent Liabilities
- Accounting Policy states, "It is the Company's Policy to take into account the impact of any significant event that occurs after Balance Sheet date but before the **finalisation of accounts**"

ISSUES – Cont'd

AS - 5 Net Profit or Loss for the Period, Prior Period Items and changes in Accounting Policies

- Difference between 'exceptional' items and 'extra-ordinary items' need to be born in mind while dealing with their disclosures

  Example of Extraordinary Activities
  - an earthquake
  - Attachment of property
  - **In US the 9/11 Attacks were not considered as extraordinary**
  - **Ordinary Activity Disclosure: (paragraph 12)**

    When items of income or expense within the profit or loss from Ordinary Activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, nature and amount of such items should be disclosed separately

ISSUES – Cont'd

AS - 5 Net Profit or Loss for the Period, Prior Period Items and changes in Accounting Policies

Examples of Ordinary Activity requiring disclosures

- Write down of inventories to NRV and reversals of such write downs
- Disposal of Fixed Assets/ Long term Investments
- Litigations settled
- Reversal of provisions
- Change of depreciation method
- loss on sale of business
- service tax/ excise claim

ISSUES – Cont'd

AS - 5 Net Profit or Loss for the Period, Prior Period Items and changes in Accounting Policies

- **Prior Period Items**
  - Adjustments related to previous period but determined in current period e.g. wage settlement arrears, are not prior period items
  - Materiality is to be noted in prior period items
  - Accounting Policy states "Prior period expenses and income are included in respective heads of expenses and income in the profit and loss account." Paragraph 15 of AS 5-nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

ISSUES – Cont'd

AS-5 Net Profit or Loss for the Period, Prior Period Items and changes in Accounting Policies

- **Change in accounting policies** not appropriately disclosed
  - need to be disclosed with quantitative impact
- **Changes in Accounting Policies vs. Change in Estimates**
  - Change in Accounting Policy should be made only if it is (paragraph 29)

  a. **Required by statute** or for **compliance with an AS**

  b. Change would result in a **more appropriate presentation** of financial statement

  c. Accounting Estimate may have to be revised if changes occur regarding the circumstances on which the estimate was based, or as a result of new information, more experience or subsequent developments (e.g. useful life of asset, inventory obsolence, bad debts, etc.) [paragraph 21]

  - Change of estimate is not a prior period or extraordinary item
  - Disclose effect of change in Accounting Estimate, if material (paragraph 27)

ISSUES – Cont'd

AS-5 Net Profit or Loss for the Period, Prior Period Items and changes in Accounting Policies

- Claims received on account of litigation settlement related to earlier years adjusted against current year's expenses
- Change in Accounting Policy, related to amortisation of goodwill on consolidation. Under new policy goodwill will not be amortised and there was a reversal of accumulated amortisation on goodwill on consolidation. Amount involved significant – not considered as exceptional
- Actuarial Gain/Loss shown as 'Exceptional Item'
- No details given for 'exceptional item'

ISSUES – Cont'd

AS-5 Net Profit or Loss for the Period, Prior Period Items and changes in Accounting Policies

- Dividend received from subsidiary shown as an 'exceptional item'
- Reversal of provision made in earlier years for investment in shares and also gain on sale of company's medical equipment business unit treated as an 'Extraordinary Item'
- Fire Insurance Claim received shown as extraordinary item
- Nature of expenses not explained for 'Unamortised Miscellaneous Expense write-off' and 'Unamortised Expenses'
- Mentioned that accounting policy has been changed however, the nature of change of accounting policy not disclosed

ISSUES – Cont'd

AS – 6 Depreciation Accounting

- Generally Income Tax **'Block of Assets'** concept is followed in SMC / SMEs. This is incorrect since it is not as per AS 6. Profit / loss on sale of Assets not recognized, resulting to incorrect amount of depreciation
- Whenever **method** of depreciation is **changed**, recalculate depreciation from the date assets are put to use. Surplus / Deficit of depreciation of earlier years to be charged to Current Years Profit and Loss Statement (Paragraph 21)
- However **when only useful life is revised**, the balance unamortized depreciable amount is charged over revised remaining useful life. e.g. Initially a plant is estimated to have life of 3 years and accordingly depreciated. In 2nd Year the estimate of life is revised to 5 years. Now the WDV of such plant at the end of 1st year will be deprecated over 4 years (paragraph 23)
- Even if assets is **temporarily not being used** e.g. factory shut down, depreciation needs to be provided on such assets also

ISSUES – Cont'd

AS – 6 Depreciation Accounting

- Charging of depreciation at rates different from rate prescribed in Schedule XIV *(now Schedule II of The Companies Act 2013)* and no disclosure was made of such higher rate of depreciation charged
- No depreciation/amortisation charged on 'Leasehold Land' by a Company
- Leased assets amortized over the period of the lease with no reference to the useful life of the asset
- Transferring an amount from revaluation reserve to other income in P&L account is not correct.
  - Transfer from Revaluation Reserve should be shown in the P&L account separately and adjusted against the total amount of depreciation (As per new Companies Act, 2013 in my opinion no adjustment to P&L Account)
- Depreciation on fixed assets charged as per the Income Tax Act, 1961.
- Earlier application of Schedule II rates

ISSUES – Cont'd

AS – 6 Depreciation Accounting

- Depreciation on dredging Expenses provided by an entity engaged in port activities **beyond concession period**
- No depreciation provided -
  - On Plantation/Development which has been treated as fixed assets in the balance sheet
  - on "Right of Use" (ROU)
- Accounting policy states that assets acquired upto a certain date are depreciated as per Income Tax rates
- No reference to considering useful life in determining depreciation rates
- It was noticed in certain cases that the column of depreciation was present, as 'depreciation/ impairment' implying that the figures disclosed in that column are an aggregation of both depreciation and impairment loss.

ISSUES – Cont' d

AS – 6 Depreciation Accounting

Disclosures

- Generally observed in SME / SMCs that WDV is the starting point for disclosure which is incorrect
- Historical Cost i.e. Gross Cost, depreciation for the period & related accumulated depreciation for each class of assets needs to be disclosed.
- Depreciation method used and depreciation rates or useful life of assets if different from the rates specified in the statute e.g. In case of Companies rates more than Schedule XIV are being considered

AS – 7 Construction Contract

- It was observed from the accounting policy regarding construction contracts of a company that "revenue has been recognised based on bills raised and cost has been accounted, as and when incurred", whereas paragraph 21 of AS 7 requires to recognise revenue and costs based on the stage of completion of the contract activity as on the reporting date

ISSUES – Cont' d

AS – 9 Revenue Recognition

- SMC's have to follow accrual method for all its revenue streams (S. 128 of Companies Act , 2013)
- Accounting policy on revenue recognition, interalia, states that "…….Revenue from sale of products is inclusive of excise and export incentives." Export incentives not being Revenue should not be merged with the sales figure and should be treated as a separate line item under 'Other Operating Income'.
- Revenue recognition from services provided need careful consideration (e.g. completed service contract vs Proportion completion method) for
  - Builders/Developers – GN on accounting for real estate transactions
  - Coaching or Tuition Fees
  - AMC or other services

ISSUES – Cont' d

AS – 9 Revenue Recognition

- Dividend is to be accounted when right to receive payment is established (e.g. passing of resolution in AGM) and not on cash basis (paragraph 13)
- Inadequate accounting policy with respect to timing of revenue recognition and no reference to risks and rewards Examples:
  - Revenue recognised on transfer of goods to customers
  - Revenue recognised on dispatch of goods
  - Revenue from resale of software recognised on delivery of products
  - Sale recognised on completion of sale of goods
- Recognition of revenue on transfer of 'sufficient' or 'substantial' risks and rewards instead of on transfer of 'significant' risks and rewards .

ISSUES – Cont' d

AS – 9 Revenue Recognition

- It was noticed in some cases that the accounting policy disclosed that the sales were net of discount, without specifying the nature of discount, as to whether they were cash discount or trade discount
- Revenue includes export benefits without disclosing the amount of such benefits.
- If at the time of raising any claim its unreasonable to expect ultimate collection, revenue recognition should be postponed (paragraph 10)
- Revenue to be recognized only when No Significant Uncertainty exists regarding the amount of consideration that will be derived from the sale of goods / services (paragraph 11 and 12)

ISSUES – Cont'd

AS – 9 Revenue Recognition

- As per paragraph 10 of AS 9 following to be disclosed

Turnover (Gross)	XXX
Less: Excise Duty	(XXX)
Turnover (Net)	XXX
(Not for VAT/ Sales Tax)	

- Revenue recognition policy to recognise captive consumption / inter-divisional transfers as sales is **not** in line with AS 9
- Subsidy received from Government of India is disclosed under 'Revenue'
  – to be disclosed under other operating income
- Income from prepayment of CST liability was recorded in March 31, 2014 on the basis of anticipated settlement

ISSUES – Cont'd

AS – 10 Accounting for Fixed Assets

- Classification of fixed assets – often 'Intangible assets' not shown separately
- Assets held for disposal to be shown separately and to be valued at NRV if lesser than net book value (paragraph 24)
- The cost of fixed assets include interest on borrowings attributable to **acquisition of qualifying fixed assets** up to the date of commissioning of the assets and other incidental expenses incurred up to that date.
- As per AS 10, 'The cost of an item of fixed asset comprises its purchase price, including import duties and other non-refundable taxes or levies and any directly attributable **cost of bringing the asset to its working condition for its intended use**'...
- As per AS 16, 'The capitalisation of borrowing costs as part of the cost of a qualifying asset **should commence when** .... (c) activities that are necessary to prepare the asset for its intended use or sale are in progress

ISSUES – Cont'd

AS – 10 Accounting for Fixed Assets

- Enabling assets/Assets not owned by the company recognised as fixed assets e.g. capitalisation of development of road on land not owned by the company and depreciation provided on the same
- Powerline payments made to Electricity Authorities capitalised and being amortised over a five year period
- A supplier of various equipments to a power generating unit has also supplied the design for process as well as engineering details. The company under review has capitalised the consideration paid for such design and engineering as an intangibles assets"
- Income tax and wealth tax paid has been treated as pre- operative expenses

ISSUES – Cont'd

AS – 10 Accounting for Fixed Assets

- Disclosures with regard to gross and net book values/ carrying cost with regards to AS 10 and AS 26 respectively and related movement during the year must be disclosed.
- In 'Expenditure during construction period', indirect expenses are capitalised instead of only 'directly attributable'
- Advertisement & Publicity expenses incurred during construction period are being capitalised as part of project cost
- Fixed Assets costing less than Rs. 5,000/- are charged to Statement of Profit & Loss policy was given under Notes to Fixed Asset Schedule instead of 'Significant Accounting Policies'

ISSUES – Cont'd

AS – 11 The Effects of Changes in Foreign Exchange Rates

- Record Foreign Currency Transactions e.g. export or import on date of transaction i.e. date of sale / purchase and **not** on date of realisation / payment (paragraph 9)
- Year end balances of monetary items e.g. Debtors, Creditors, Advances, etc. To be translated at year end at closing rate. [paragraph 11 (a)]
- Difference between date of transaction & date of settlement / transaction is to be taken to Foreign Exchange Difference Account **(& not to Sales / Purchase / Expenditure account)**

ISSUES – Cont'd

AS – 11 The Effects of Changes in Foreign Exchange Rates

- Forward Contracts for Hedging Purpose [paragraph 36]
  - Premium or discount at inception to be amortized over period of contract (Difference between rate on date of transaction and forward rate)
  - Exchange differences on such a contract should be recognised in the statement of P&L in the reporting period in which the exchange rates change
- <u>Do not</u> record transactions at Prefixed / Packaging Credit foreign exchange rates
- <u>Do not</u> record Export transactions at the bill of lading date/rate

  (check the terms of contract (FOB, CIF, etc.)

ISSUES – Cont'd

AS – 11 The Effects of Changes in Foreign Exchange Rates

- Difference between Forex rates prevailing at the time of making investments and the date on which accounts of joint venture made were recognised in Foreign Exchange Fluctuation Reserve without clarifying whether the operations are integral/non-integral
- Foreign currency loan covered under AS 11 accounted as per AS 30
- Gains/Loss on derivatives / hedging adjusted to carrying cost of Fixed Assets which is not in accordance with ICAI Announcement on 'Accounting for Derivatives'
- MTM gains and losses on instruments intended to hedge long-term foreign currency borrowings utilised to acquire depreciable assets are recognised to offset foreign exchange fluctuation differences on such long-term foreign currency borrowings

ISSUES – Cont'd

AS – 11 The Effects of Changes in Foreign Exchange Rates

- Accounting Policy states, "Current assets and liabilities denominated in foreign currency as at the Balance sheet date are converted at exchange rate prevailing on balance sheet date **except in case of short term loans**"
- Disclosures
  - Amount of Exchange Difference included in the net profit or loss for the period [paragraph 40 (a)]
  - Category wise, quantitative data about derivative instruments outstanding at the year end
  - Purpose – hedging or speculation for which derivative instruments have been acquired
  - Foreign currency exposures not hedged e.g. debtors, creditors, etc.
- Forward Contracts for Hedging Purpose

ISSUES – Cont' d

AS – 11 The Effects of Changes in Foreign Exchange Rates

Exchange difference pertaining to acquisition of fixed assets (FAs):

- **Prior 2003:** Capitalise exchange difference as required under erstwhile AS and Old Sch VI
- **March 2003:** As per Revised AS 11, recognise in the statement of P&L
- **November 2003:** As per ICAI announcement, Old Sch VI overrides AS 11 and hence exchange difference can be capitalised
- **December 2006:** AS notified under Companies (Accounting Standard) Rules, 2006
- **August 2007: ICAI** Withdraws November 2003 announcement - recognise exchange difference in the statement of P&L
- **March 2009:** As per MCA notification, exchange difference arising on reporting of long term foreign currency monetary items could be adjusted to cost of FA or accumulate in FCMITDA (option was available for accounting periods commencing on or after 7 December 2006 and ending on or before 31 March 2011)
- **December 2011:** MCA inserted Para 46A in AS 11, relevant for companies
- ICAI has made this paragraph applicable to non-corporate entities also

ISSUES – Cont' d

AS – 12 Accounting for Government Grants

- Assets received free of cost from the Government valued at cost to the Government instead of nominal value.
  - As per Para 17 of AS-12, 'Government grants in the form of non-monetary assets, given at a concessional rate, should be accounted for on the basis of their acquisition cost. In case a non-monetary asset is given free of cost, it should be recorded at a nominal value .'
- Both the nature of grant, as well as the consequent accounting treatment, need to be provided in the accounting policy in order to give a complete understanding.
- Where any conditions are attached to a government grant, the disclosure of such conditions is relevant in order to understand the accounting treatment of such grants.

ISSUES – Cont' d

AS–13 Accounting for Investments

- Disclose Long Term & Current Investments distinctly and also as Trade and Other than Trade as per Revised Schedule VI
- Further Breakup of Investments as per Revised Schedule VI *(now Schedule III of Companies Act, 2013)* in Government Securities, Equity Shares, Preference Shares, Debentures, Investment in Properties and Investment in Firms. (paragraph 27)
- Current Investments to be carried at lower of cost or Fair Value on individual basis or by category basis & not on global basis (paragraph 31)
- Long term investment to be valued at cost less provision for diminution (**other than temporary**), in value of investments (paragraph 32)
  - Use of the term 'permanent diminution' instead of 'decline other than temporary' as accounting policy for Long-term Investment

ISSUES – Cont' d

AS – 13 Accounting for Investments

- Income (interest or dividend) to be disclosed separately on Long term & current investments. Also Gain / Loss & changes in carrying amounts [paragraph 35 (c)]
- Company has invested in units, bonds, shares but no accounting policy disclosed for valuing the same
- Cost of an investment includes acquisition costs such as brokerage, fees and duties. **Securities Transaction Tax** should be part of cost for accounts but excluded for Tax Computation Purpose (paragraph 28)
- Cost is to be considered on Average Cost Basis and not on FIFO or LIFO
- Disclosures regarding Significant Restrictions on the right of Ownership, Realisability, Remittance. [paragraph 35 (d)]
- Paragraph 35(e) of AS 13 requires an entity to disclose the 'aggregate amount of quoted and unquoted investments, giving the aggregate of market value of quoted investments.' Thus, an entity is required to disclose the updated values

ISSUES – Cont'd

AS – 13 Accounting for Investments

- Investment property measured at fair value . Para 30 provides '***An enterprise holding investment properties should account for them as long term investments'.***

- Investments not reflected as current or long-term as per AS 13 but instead reflected as per Income Tax Act and rules made thereunder in a non corporate entity

- In non-current investments, the amount of investments were disclosed as Nil, since the investments were matured during the year but number of units were still appearing in the financial statements.

- **Gain on Sale of Mutual Funds units** – whether these are held as long-term or current has not been stated. Further, the income thereon **shown as part of Revenue Operations instead of 'Other Income'**

ISSUES – Cont'd

AS – 14 Accounting for Amalgamations

- Amalgamation on the basis of Court approved schemes which include accounting treatment in deviation from various Accounting Standards including AS 14 (Disclosure as per Para 23)

- Brand annual amortisation transfered to the credit of Statement of Profit and Loss out of 'Reserve for Amortisation of Brand account' pursuant to a Court Scheme

- Adjustment of certain expenses through Business Reconstruction Reserve pursuant to a court approved scheme of financial restructuring. A separate BRR created by transferring balances of Securities Premium Account. Significant amounts towards exiting of certain businesses had been adjusted through this reserve

- In a scheme of amalgamation in the nature of merger, the difference between Share Capital and total consideration paid were transferred to General Reserve
  - As per EAC opinion the difference should be transferred to Capital Reserve

ISSUES – Cont'd

AS – 15 Employee Benefits

- A level III Enterprise and SMC (having less than 50 persons) has to provide Defined Benefits Plan in a rational method if it does not do Actuarial calculation e.g. calculation of gratuity, leave encashment, etc. payable to employees at the end of accounting year
- Just mentioning that Gratuity Liability is Funded with LIC or any other Insurance Company is not enough. It is only a fund and liability could be higher or lower
- If the investment and actuarial risk falls on the employer as per the terms of setting up the Trust, it should be classified and presented entirely as a defined benefit plan.
- Gratuity treated as Short term employee benefit
- Contributions to Provident Funds set up and managed through Trusts established by employers not being classified as defined benefit obligation
  - not in accordance with AS 15 including implementation guidance of the Accounting Standard Board on AS-15

ISSUES – Cont'd

AS – 15 Employee Benefits

- ESOP Trust accounted as per legal opinion and not as per SEBI guidelines or Guidance Note on Employee Share based payments in case of a listed entity
- Details of provisions required under AS-29 included Provision for Employee benefits such as earned leave liability, post retirement medical benefits, medical leave liability which are outside the scope of AS-29
- Disclose accounting policy for Defined Contribution Scheme like PF, etc.
- Companies should disclose the information about defined benefit as specified there under [Para 120]
- Non-disclosure of details regarding employee benefits such as experience adjustments (para. 120(n)), plan assets- "pattern of investment" (para. 120(h)), expected contribution for the next year (para. 120(o)), etc.
- Non-disclosure of line item of the statement of profit and loss in which the contribution to defined benefit plans as required by para 120(g)

ISSUES – Cont'd

AS – 15 Employee Benefits

- Accounting policy on Employee Stock Option Plan (ESOP) not as per Guidance Note on Employee Share Based payments in the case of an unlisted entity
- In few cases, amount recognised as expense for defined contribution plan not disclosed as line item of the statement of profit and loss though required as per para 47 of AS 15

- **Accounting Policy states :**

➢ "Provision for gratuity is made in the accounts, considering the Balance sheet date as the notional date of retirement"

➢ "payments under Voluntary Retirement Scheme are recognised in the P&L Account of the year in which such payment are affected"

ISSUES – Cont'd

AS – 16 Borrowing Costs

- As per Accounting policy interest cost was included in the cost of inventories.
  - As per AS 16, no borrowing cost (interest) can be capitalised unless such inventories take a substantial period of time to get ready for sale. Also as per AS 2, interest cannot be considered as cost for inventory valuation purpose

- Amount of borrowing costs capitalised during the year is not disclosed

- Some policies indicate that the borrowing costs incurred on any general borrowing (irrespective of the fact whether those borrowings were used for the acquisition of qualifying assets) are expensed. This is contrary to the requirements of AS 16.

- Company had capitalized a significant portion of financial charges to the value of fixed assets but omitted to disclose the accounting policy adopted by it for borrowing cost. It is not in line with the requirement of paragraph 23 of AS 16

ISSUES – Cont'd

AS – 16 Borrowing Costs

- Different companies are found to be treating debt restructuring charges/ external commercial borrowings upfront fees as follows:
  - ➢ Restructuring charges which had been paid to extinguish high cost debts were written-off over the tenure of fresh loans taken for refinancing such high cost debts.

  It was observed that debt restructuring charges paid to extinguish high cost debts were not incurred for the acquisition, construction or production of qualifying assets. In fact, it involves revision in the terms of borrowings. Therefore, such costs are not eligible for capitalisation with the cost of asset.

  Further, AS 16 does not prescribe amortisation of such costs.

ISSUES – Cont'd

AS – 17: Segment Reporting

▪Nothing is mentioned about segment reporting in accounting policy or FSs – Non compliance of AS 1 & AS 17

➢Where there are **no reportable segments**, the entity should **clearly disclose** such fact in the financial statements

▪Significant differences in PAT, Total assets & Total Liabilities – reported in FSs and Segment report

▪In some cases companies opted to present **segment disclosures only in the consolidated financial statements (CFS)**. However, it was observed that no reference to this fact was made in the standalone financial statements (SFS).

▪In Segment Reporting, amounts required to be disclosed for depreciation and amortisation as well as those of non-cash expenses other than depreciation and amortisation not disclosed. (Required as per paras. 40 (g) and (f))

ISSUES – Cont' d

AS – 18: Related Party Transactions

- Loans to Subsidiary Companies disclosed as per Clause 32 of Listing Agreement but the same are not reflected in the related party transactions
  - Should be disclosed
- Non user-friendly presentation of 'Related party transactions'
- Non-Executive Directors disclosed as Key Management Personnel
- Investment made in Joint venture reported in Corporate Governance report is not disclosed in related party transaction

ISSUES – Cont' d

AS – 19 Leases

Income of lease rent & expense of lease rentals

- Disclosures not made as per AS 19.
- Whether finance lease or operating lease is not clear
- The accounting policy adopted by company for recognition of the revenue received as Lease rent had not been disclosed.

Finance Lease vs. Operating Lease

- Lease payments under an operating lease should be recognized as an expense in Profit & Loss statement **on a straight line basis** over the lease term. (paragraph 23)

ISSUES – Cont' d

AS – 19 Leases

Example – ABC Pvt. Ltd has entered into leave and license agreement with XYZ Pvt. Ltd for 3 years (36 months) for monthly rent of Rs 10,000 per month and increase of 10% in monthly rent after end of every one year.

Total Rent payable during 36 months comes to Rs. 3,97,200 (Rs 10,000 p.m for 1st year, Rs 11,000 p.m. for 2nd Year and Rs 12,100 p.m. for 3rd year)

Hence monthly rent to charged to Profit & Loss Statement is Rs 11,033

AS – 20 Earnings per Share

- In case of Company, disclose EPS on the face of Profit & Loss Statement
- For Level II & III Enterprises and SMC there is no need to disclose Diluted EPS
- Reconciliation of the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share not disclosed

ISSUES – Cont' d

AS – 20 Earnings per Share

- Even if there was no difference in the basic and diluted EPS it should specifically state on the face of the P&L account itself that EPS figure is disclosed for **basic as well as diluted EPS**
- In case of a **bonus issue** a company is required to restate total no. of equity shares for previous year by giving effect to bonus shares issued during the current year. Thus, the EPS for previous year would undergo a change pursuant to bonus issue in current year.
- Disclosure of the nominal value not disclosed on the face of the Profit and Loss Account.
  - Para. 48 (ii) (c) requires the nominal value of shares along with the earnings per share figures to be disclosed.

ISSUES – Cont'd

AS – 21 Consolidated Financial Statements

- Capital Reserve and Goodwill on separate acquisitions were netted off in the Consolidated Financial Statements (CFS)
- In CFS, changes in actuarial valuation in respect of a group subsidiary adjusted to reserve and not charged to the statement of profit and loss as per the accounting policy under IGAAP followed by the Parent Company
- No distinction made between goodwill on **consolidation** and **acquired** goodwill
- All disclosures made by the subsidiary would need to be made in the CFS unless they are not material.
- CFS prepared using accounting policies of subsidiary while those of the parent were different. Para. 20 provides ***Consolidated Financial Statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances.***

ISSUES – Cont'd

AS – 21 Consolidated Financial Statements

- No disclosure of the list of companies consolidated for CFS. As per Para 29 of AS 21, following disclosures are required to be made:

  In CFS a list of all subsidiaries including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held

- Substantial increase in amount of goodwill on consolidation however, no major acquisition pointed to it in notes to accounts

ISSUES – Cont'd

AS – 22 Accounting for Taxes on Income

- Tax Expenses = Current Tax + Deferred Tax
- DTA/DTL to be disclosed separately in Balance Sheet and major components thereof to be shown in notes (paragraph 30 and 31)
- Netting of DTL of subsidiary against DTA of the parent entity, and also in separate jurisdictions which is contrary to the requirement of para 29(b).
- Deferred Tax to be recognised on Timing Differences like Depreciation, 43B, 40(a)(i), tax losses, etc. (paragraph 13)
- However DTA on losses is to be recognised on Virtual Certainty of set off and on other items on Reasonable Certainty of set off (paragraph 15 and 17)
- Difference between 'Reasonable Certainty' and 'Virtual Certainty' often overlooked and DTA created on C/F Losses without ascertaining Virtual Certainty backed by convincing evidence [nature of such evidence to be disclosed in notes] (paragraph 32)

ISSUES – Cont'd

AS – 22 Accounting for Taxes on Income

- Public Sector Banks: Deferred Tax Liability was not created on Special Reserve created u/s 36(1) (viii) of the Income Tax Act, 1961
- The deferred tax assets and liabilities had been presented in either of the manner as given below:
  - Deferred tax liability shown as a part of 'Loan Funds'.
  - Deferred tax (net) shown after the head 'Net Current Assets'.
  - Deferred tax Liability is shown as a deduction from the 'Application of Funds'.
  - Deferred tax Liability is shown as a part of 'Shareholders Funds'.
  - Deferred tax Liabilities is shown as distinct sub-head under the Schedule of Provisions.

ISSUES – Cont'd

AS – 22 Accounting for Taxes on Income

▪Deferred tax liabilities disclose after the head 'Unsecured Loans' and deferred tax assets should be disclose separately after the head 'Investments' in old Sch VI format [Paragraph 30] *(now in Schedule III format in non current liabilities or assets)*

▪Accounting policy on accounting for Deferred Tax Assets had not been disclosed

▪Accounting Policy states that "Deferred tax liability and asset are recognised, subject to the consideration of prudence, on timing differences using the tax rates **substantively enacted on the Balance Sheet date**."

▪Deferred tax amount can be charged to revenue reserves (which include General Reserves) only in the first year of transition Subsequently no such adjustment is permissible.

ISSUES – Cont'd

AS 23: Accounting for Investments in Associated in Consolidated Financial Statements

▪Goodwill/Capital Reserve arising on acquisition of Associates not disclosed separately

AS – 24 Discontinuing Operations

▪In Explanatory statements pursuant to section 173(2) of the Companies Act, 1956, discontinued business details are given but the information as required under Para 20 & 32 is not given in FSs

AS – 25 Interim Financial Reporting

▪The AS is applicable to all entities but often overlooked i.e. whenever Interim Financials are prepared (say for giving to Bank for renewal/revision of facilities or for any other purpose) – the same has to comply with and reported upon in accordance with provisions of AS 25

ISSUES – Cont'd

AS – 26 Intangible Assets

- The accounting policy relating to Miscellaneous Expenditure states that "Preliminary expenses are deferred and are written off over the period of five years." Not correct.
- Deferred Employee Compensation included under Miscellaneous Expenditure on the face of the Balance Sheet
- Store opening fees was being amortised over a period of five years which is not in accordance with AS 26. Further, the nature of store opening fees was also not explained anywhere in the financial statements
- Expenses incurred towards IPO and other deferred expenses classified as Miscellaneous Expenditure written off equally over a period of 5 years

ISSUES – Cont'd

AS – 26 Intangible Assets

▪No asset like Misc Expenses (not w/off), DRE, advertisement expenses, training expenses, etc allowed to be recognized as Intangible asset (paragraph 56)

▪Directors' Report state that significant expenses on research and development (R&D) activities incurred however, no separate disclosure with regard to such R&D expenditure was found in the P & L

▪When intangible assets being amortised over life exceeding 10 years, the reason for prolonged useful life is required to be disclosed as per paragraph 94 of AS 26

▪AS 26 does not permit indefinite useful life and hence intangible asset needs to be amortised and disclosed accordingly.

▪In certain cases the entities disclosed certain intangible assets- particularly, right of use, as perpetual assets, with no amortisation being provided on the same

ISSUES – Cont' d

AS – 26 Intangible Assets

- Non-disclosure as per para 90 of AS-26 i.e. whether acquired or internally generated intangible assets
- Intangible Assets include preference share of subsidiaries and lease premium paid with right to hold and use Land & Buildings
- Software purchased is charged to the Statement of Profit & Loss as and when incurred
- Policy of R & D Expenditure not properly explained in most cases. Policy on R&D only mentions that research and development costs are charged as an expense in the Statement of P&L in the year in which it is incurred
- Certain costs like dry dock expenses, treated as 'Deferred Revenue Expenditure' which is not permissible after coming into effect of AS 26

ISSUES – Cont' d

AS – 27 Financial Reporting of Interest in Joint Ventures

- AS 27 on Financial Reporting of Interests in Joint Ventures requires a venturer to report its interest in jointly controlled entity using proportionate consolidation with only two specific exemptions. Consequently, where the investment in the jointly controlled entity does not satisfy the two conditions, it should be accounted for on proportionate consolidation basis. Further AS 27, specifically requires the share in joint venture to be disclosed separately with each line item. This is often not done by the companies.

AS – 28 Impairment of Assets

- At each Balance Sheet date an enterprise should assess whether there is any indication that an asset may be impaired (paragraph 6)
- No information had been given in the Accounting policy to indicate whether the company conducts any impairment tests. No separate information about cash generating units is provided

ISSUES – Cont' d

AS – 29 Provisions, Contingent Liabilities and Contingent Assets

- Discounts, claims, rebates payable, warranties to be provided for & not accounted for when settled/paid
- Provision for Warranty, Restoration of Sites, Marketing & Sales Schemes (Reward Points, Future Sales at Discount,etc)
- Warranties incurred during the year since one year warranty given for products by the entity but no provision for warranties made in accounts and expenses on warranties as and when incurred are charged off as and when incurred
- List of contingent liabilities - give a description of the nature of the liability- do not merely state as 'sales related obligations' or 'claims against the company not acknowledged as debt' with no further explanation

ISSUES – Cont' d

AS – 29 Provisions, Contingent Liabilities and Contingent Assets

- Accounting policy for recognising provisions mentions a "present legal obligation" rather than a "present obligation" as required by AS 29
- Accounting policy on accounting for liability for loyalty programme not disclosed (AS 29) though movement as per AS 29 disclosed
- Draft Assessment orders received from Income Tax authorities and show cause notices cum demand received from various other Government Authorities have not been considered as Contingent Liabilities
- Self Insurance Reserve created for the year which is not in accordance with AS 29 since it is not a 'provision' as per AS 29
- No provision made in the financial statements for notice served by two wholly owned subsidiaries for closure of their projects with NHAI due to non availability of Right of Way to the site and non-receipt of Environment and Forest clearances

Other Disclosures

- Rent Expense/Income shown on net basis instead of gross basis
- The nature of expenses described as 'Business Origination Outsourcing' was not explained even though the amount involved was significant
- No accounting policy given to explain the accounting for an associate which became a subsidiary during the year

NBFC - Specific

AS – 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

- Additional provision made on Standard Assets classified as a part of "Exceptional Items" without sufficient explanation
- Nature of 'Special Reserve' not explained in financial statements i.e. nature of expenses

  Para 5 of AS 5 provides that 'all items of income and expense which are recognised in a period should be included in the determination of net profit or loss for the period.....'

AS – 17 Segment Reporting

- In the case of non banking financing entities, while income from operations contained significant non-financing revenue, the entity had identified only one operating segment with no explanations i.e. no distinction made between fund based and fee based revenue and consequent risks and rewards

Bank & Insurance - Specific

Other Disclosures

- Income from 'Bancassurance business' not disclosed as per RBI Circular in the balance sheet of banks
- Debt securities were being amortised on straight line basis over holding/maturity instead of constant yield basis
- Disclosures of Contingent Liabilities were not made on the face of the Balance Sheet of an insurance company as required by the format prescribed under the IRDA Regulations
- Disclosures of names, descriptions and directorship held by persons-in-charge of the management of business, as required under section 11(2) of the Insurance Act, 1938, were not made

Bank & Insurance - Specific

Other Disclosures

- Disclosure of Funds for Discontinued Policies under the classification 'Provision for Linked Liabilities' on the face of Balance Sheet were not made in case of Insurance entities
- Elements of Provision for Linked Liabilities (with changes in fair values) required to be shown on the face of the Balance Sheet were not disclosed in the case of Insurance entities
- In case of few Insurance entities, Reserve for unexpired risks and contribution to Solatium Fund were not allocated to Segments
- No accounting policy given for Securitisation/Assignment which appears to be a key activity of the Company

Bank & Insurance - Specific

Other Disclosures

- Secured Borrowings not disclosed required as per Third Schedule of Banking Regulation Act, 1949 (Schedule 4)
- Brokerage has been amortised over a period of deposit. It is not *prima facie* apparent where the "unamortised brokerage on deposits" has been disclosed
- Gain on account of prepayment of Commercial Paper were disclosed under 'Revenue from Operations' instead of 'Finance Cost'
- In Cash Flow Statement, Foreign Currency Translation Reserve disclosed under Cash Flow from Investing Activities, though the same is not a cash transaction
- Cash & Cash equivalent mentions 'remaining maturity' instead of 'original maturity'
- Cash & Cash equivalent includes deposit more than 3 months but less than 12 months and also earmarked balances

Bank & Insurance - Specific

Other Disclosures

- Both increases in Advances and Borrowings have been shown as adjustments under the head 'Cash Flow from Operating Activities'. It is contrary to AS 3 as opined by the Expert Advisory Committee of ICAI which states that both the items should appear under the head 'Cash flow from Financing Activities'
- Non-banking assets are shown at cost.
- Income by way of locker rent, fees, commission, exchange, brokerage, interest on overdue bills were accounted on **realisation** basis
- Dividend on shares in subsidiaries, joint ventures and associates were accounted on actual realisation basis which is not in accordance with AS 9.
- No accounting policy given for Securitisation/Assignment which appears to be a key activity of the Company Secured Borrowings not disclosed required as per Third Schedule of Banking Regulation Act, 1949 (Schedule 4)

Bank & Insurance - Specific

AS 14

- In one of the company, Deferred Tax relating to provision for NPA was adjusted under the scheme of Amalgamation under the 'Pooling of Interest Method' which is not as per AS-14

AS – 15 Employee Benefits

- Public Sector Banks:

➢ Expenditure towards pension and Gratuity amortised over a period of time.

Treatment permitted as an option (not mandatory) by the Reserve Bank of India (RBI) and is not in accordance with AS-15

AS – 17 Segment Reporting

- In Segment Reporting, in few instances it was observed that the figures for the previous year have not been given which is not in accordance with the RBI Master Circular (para. 4.4) and AS 17.

Bank & Insurance - Specific

AS – 17 Segment Reporting

- As per the RBI Master Circular, banks have to show other banking operations as separate segment in 'Segment Reporting'. In one of the banks, there was no disclosure for Other Banking operations. In another, non-banking operations were disclosed as other banking operations.

AS – 18 Related Party Disclosures

- Remuneration paid to each individual KMPs in terms of amount exceeding 10% not made since disclosure does not indicate the individual amounts paid to each individual person.
- Dividend paid to Key Management Personnel (KMPs) not shown as Related Party Transactions.

AS – 29 Provisions, Contingent Liabilities & Contingent Assets

- Additional provision made on Standard Assets even though there was no obligation – no consideration to the conditions for recognition of provision as per AS-29

Positive Features

- Sustainability initiatives taken by banks explained in their Annual Reports
- Good overall general review of performance of the company as a whole and product wise
- Optimum use of graphs and charts
- In few cases Accounting policies were explicitly given
- In few cases, Valued Added Statement were also given in the Annual Report
- Certain entities were IFRS compliant giving additional disclosures in their Annual Report

Issues on Revised Schedule VI
(Schedule III of Companies Act, 2013)

- Fixed assets held for disposal should be classified as a **Current Asset** since the intent of the company to sell is established
- Cash & Cash Equivalents includes items such as unpaid dividend & earmarked balances
- As per Guidance Note, prepaid expenses should be disclosed under Loans & Advances and not under Other Current / Non Current Assets
- Inappropriate / non-disclosure of Operating Cycle
- Movement in Reserves and Surplus Accounts not disclosed (only the opening and closing figures mentioned in the Schedule)
- Prior year comparison of each item of fixed assets not disclosed
- Referencing and cross referencing not done for notes to accounts
- Income in settlement of litigation shown under 'Other Operating Revenue'. The same to be shown as 'Other Income' depends on nature

Issues on Revised Schedule VI
(Schedule III of Companies Act, 2013)

- Deferred revenue liability not classified as current/non current.
- Sundry Debtors were shown as part of Other Current Assets and not disclosed as per the requirements of Schedule VI as Trade Receivables. The break up for the same is also not disclosed
- No disclosure given for terms and conditions, number of shares to be issued, premium, if any, etc of 'Share Application Money' as required under Revised Schedule VI to the Companies Act, 1956
- Gain from Foreign Exchange were disclosed under 'Revenue from Operations'. Guidance Note on Revised Schedule VI provides this to be disclosed as 'other income' unless the business of the company is dealing in foreign exchange
- Cash & Bank Balances includes investment in liquid mutual funds not as per Revised Schedule VI to the Companies Act, 1956
- In Fixed Asset Schedule, previous year figure for each line item were not disclosed. This is required by the Revised Schedule VI

Which entities are Small & Medium Enterprise?

- As per Accounting Standards of ICAI (AS)
- As per Companies (Accounting Standards) Rules, 2006 (ASR)
- IFRS for SME's
- Companies Act, 2013

LEVELS

- **Companies AS Rules**
  - SMC
  - Non SMC
- **Companies Act, 2013**
  - One Person Company (OPC)
  - Small Company
- **ICAI**
  - Level I
  - Level II
  - Level III

As per Companies Act, Small and Medium Company (SMC)

Companies which meet ***ALL*** the following conditions

- Whose equity or debt securities are not listed or in process of listing on any stock exchange , whether in or outside India.
- The company is not a Bank or financial institution or insurance company.
- Whose turnover (excluding other income) does **not exceed Rs 50 crore** for immediately preceding accounting year.
- Does not have borrowings (including public deposits) in excess of Rs 10 crore at any time during **the immediately preceding accounting year**, and
- Is not a holding Company or subsidiary of a non SMC company.

Note: where a Non SMC subsequently becomes a SMC, it shall not be qualified for exemption or relaxation in respect of AS applicable to SMC until the company remains an SMC for TWO consecutive accounting periods

As per Accounting Standards Level I Enterprises

Enterprises which fall in any one or more of the following categories, at any time during the accounting period

- Whose equity or debt securities are listed or are in process of listing in or outside India
- Banks including co-operative banks
- Financial institutions
- Enterprises carrying on insurance business
- Enterprise whose turnover for immediately preceding accounting period exceeds Rs 50 crore *excluding other income*
- Enterprise having borrowings including public deposits in excess of Rs 10 crore at any time **during the accounting period**
- Holding and subsidiary enterprises of any one of the above at any time during the accounting period

As per Accounting Standards Level II Enterprises

Enterprises which are not Level I enterprises but fall in any one or more of the following categories

- Enterprise whose turnover for immediately preceding accounting year exceeded Rs 1 crore but did not exceed Rs50 crore, (*excluding other income)*
- Enterprise having borrowings including public deposits in excess of Rs 1 crore but does not exceed 10 crore at any time during the accounting period
- Holding and subsidiary enterprises of any one of the above at any time during the accounting period

As per Accounting Standards Level III Enterprises

Enterprises which are not covered under Level I and Level II are considered as Level III enterprises

Difference in Qualifying Levels of borrowings of SMC & SME

- A SMC that does not have borrowing exceeding Rs 10 crore at any time **during the immediately preceding year** – will qualify for SMCs even if borrowings of current year exceed Rs 10 crores
- A SME whose borrowings exceed Rs 10 crore at **any time during the current period** would automatically be deemed to be level I enterprises

As per Companies Act, 2013

One Person Company (Clause 2 (62)) - means a company which has only one person as a Member

Small Company (Clause 2(85)) - means a company, other than a public company,—

(*i*) paid-up share capital of which does not exceed Rs.0.50 crore or such higher amount as may be prescribed which shall not be more than Rs.5 crore; or

(*ii*) turnover of which as per its last profit and loss account does not exceed Rs.2 crore or such higher amount as may be prescribed which shall not be more than Rs.20 crore:

Provided that nothing in this clause shall apply to—
(*A*) a holding company or a subsidiary company;
(*B*) a company registered with Charitable Objects; or
(*C*) a company or body corporate governed by any special Act;

IFRS for SME's

Recognising need to have separate set of Standards for SME's, the IASB considers those entities as SME, which:

a) do not have public accountability, and
b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.

An entity has **public accountability** if:

- its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market; OR
- it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

IFRS for SME's – cont'd

- Based on such qualitative criteria, IFRS for SME's is released
- Having regard to special considerations of cost and size, SME's have been accorded exemptions from many Standards

Smaller Entities (SMC or SME) – in brief for today's discussion

- Sole Proprietary Concerns / Individuals
- Hindu Undivided Family (HUF) / Association of Persons (AOP)
- Partnership Firms
- Co-operative Societies & Societies registered under Societies Registration Act
- Trusts
- Companies / Enterprises Turnover / Borrowings not exceeding Rs 50 Crore / Rs 10 Crore respectively
- Not listed or not likely to be listed
- Not Bank, Insurance, MF or such other entities

Note: Many of the aforesaid entities are not covered by FRRB but most of the observations of FRRB are relevant for them

Smaller Entities (SMC or SME)

- September 1993 Council's Decision – AS will **mandatory apply** in respect of General Purpose Financial Statements (GPFS) for entities mentioned above, **where such statements are Statutorily required to be Audited under any law**
- AS will however not apply to those entity which are not of Commercial, Industrial or Business nature—eg Trust having only donation income & spending for the objects like poverty alleviation, education , etc

Exemptions / Relaxations in AS

Exemptions:

- **AS 3, AS 17, AS 18 and AS 24**

✓ Absolute Exemption provided to SMC and Level II & III enterprises
✓ Cash flow required for all companies except OPC or small company, as per Companies Act, 2013
✓ Related parties disclosure required for all companies under Companies Act, 2013

- **AS 21, 23 and 27**, if SMCs / SME's present Consolidated Financial Statements then same must be in accordance with AS 21, 23 and 27

Relaxations:

- AS 15 , AS 19, AS 20, AS 28 and AS 29

Exemptions / Relaxations in AS

• AS / ASR lay down principles of **Recognition, Measurement and Disclosures** (RMD)

•SMC/SME are exempted or given relaxation only for detailed & complex 'Disclosure' requirements and in some select cases for measurement principles (e.g. AS 15)

•In no case exemption OR relaxation accorded for 'Recognition' principles

•Difference of exemption / relaxation in case of Level II as compared to Level III are not many or material (i.e. AS 18 or AS 24)

Relaxations – AS 15

SME/SMC having more than 50 employees

Exemptions/Relaxations:

- Non vesting short term Leave entitlement
- Discounting of sums payable after 12 months
- R/M/D of Defined Benefit Plans & other Long term benfits

(P.S.: Determining liability of DBP under 'PUC' with proper discount rate & disclosing Act Assumptions is must even in such cases)

Relaxations – AS 15 Cont'd

SME/SMC having less than 50 employees
Exemptions/Relaxations:

- Non vesting short term Leave entitlement
- Discounting of sums payable after 12 months
- R/M/D of Defined Benefit Plans & other Long term benefits

[P.S.: Determining liability of DBP under some rational method (not necessarily PUC) assuming that all benefits are payable to all employees at year end]

Relaxations - AS 19

- **Relaxation in Disclosure Requirements for SMCs and Level II & III Enterprises**

For Lessee in case of Finance Lease – Para 22(c), (e) & (f)

- Reconciliation between the total minimum lease payments at the balance sheet date and their present value and total of minimum lease payments at the balance sheet date and their present value for the required periods
- Total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date
- A general description of the lessee's significant leasing arrangements

Relaxations - AS 19 Cont'd

- **Relaxation in Disclosure Requirements for SMCs and Level II & III Enterprises**

For Lessee in case of Operating Lease – Para 25 (a), (b) & (e)

- Total of future minimum lease payments under non cancellable operating leases for the required periods
- Total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date
- A general description of the lessee's significant leasing arrangements

Relaxations - AS 19 Cont'd

- **Relaxation in Disclosure Requirements for SMCs and Level II & III Enterprises**

  For Lessor in case of Finance Lease – Para 37 (a) & (b)

  - Reconciliation between the total gross investment in the lease at the balance sheet date, and the present value of minimum lease payments receivable at the balance sheet date. In addition, an enterprise should disclose the total gross investment in the lease and the present value of minimum lease payments receivable at the balance sheet date, for the required periods
  - General description of the significant leasing arrangements of the lessor

Relaxations - AS 19 Cont'd

- **Relaxation in Disclosure Requirements for SMCs and Level II & III Enterprises**
- ➢ **For Lessor in case of Operating Lease – Para 46 (b) & (d)**
  - Future minimum lease payments under non-cancellable operating leases in the aggregate and for the required periods
  - General description of the lessor's significant leasing arrangements
- **Additional Relaxation in Disclosure Requirements for Level III Enterprises only**
- ➢ **For Lessor in case of Finance & Operating Lease – Para 37 (g) & 46 (e) respectively**
  - Accounting policy adopted in respect of initial direct costs.

Relaxations in AS 20 & AS 25

- **In case of AS 20** – disclosures pertaining to 'Diluted EPS' and disclosures pertaining to parameters used in calculation of EPS are not applicable
- **AS 25** – is applicable only if a SMC/SME elects to prepare and present an interim financial report

Relaxations in AS 28 & AS 29

- Computation of 'value in use' for testing impairment in terms of **AS 28** can be based on reasonable estimate instead of 'present value technique'; disclosures pertaining to discount rate used etc not required
- Following Disclosures of sums and descriptions for each class of 'provisions' in terms of Para 66 & 67 of **AS 29** are not required

➢ Carrying amount at the beginning and end of the year; additional provisions made, amounts used and unused amounts during the year

➢ Brief description of nature of the obligation and expected timing of outflow of resources, indication of uncertainties of outflow and amount of any expected reimbursement

Exemptions to small Company under Companies Act , 2013

- Financial Statements need not include cash flow statement.
- Annual Returns of Small company can be signed by the company secretary, or where there is no company secretary, by any director of the company. (CS in practice not required in such cases)
- Small Company to hold at least 1 meeting of the BOD's in each half of a calendar year with a min gap of 90 days b/w both meetings.
- Simplified procedure for merger & amalgamation between two small companies without approval of tribunal, subject to compliance with certain other procedures

Exemptions to OPC under Companies Act , 2013

- Financial Statements need not include cash flow statement.
- Annual Returns of Small company can be signed by the company secretary, or where there is no company secretary, by any director of the company
- OPC should hold at least 1 meeting of the BOD's in each half of a calendar year with a min gap of 90 days b/w both meetings. Provided that nothing contained in this sub-section & in section 174 (Quorum) shall apply to OPC in which there is only 1 director on its BOD's
- OPC need not require to hold an annual general meeting

SEBI QARC

- SEBI has set up a new **Qualified Audit Review Committee (QARC)** to enhance the quality of financial reporting by listed entities – Circular dated August 13, 2012
- Review audit qualifications of listed enterprises
- QARC comprises representatives of ICAI, SEBI, Stock Exchanges, etc.
- Listed companies to submit the following forms along with copies of annual reports **to stock exchanges**:
  Form A: Unqualified/ Matter of Emphasis Report
  Form B: Qualified/ Subject To/ Except For Audit Report
  Signed by CEO / MD / CFO / Auditor & Chairman of the Audit Committee

SEBI QARC

Stock exchanges (SEs) shall :

- Carry out preliminary scrutiny of Form B - seek necessary explanation if required
- SEs shall refer those cases, which, need further examination, to SEBI
- QARC review the cases received from the SEs and guide SEBI

SEBI QARC

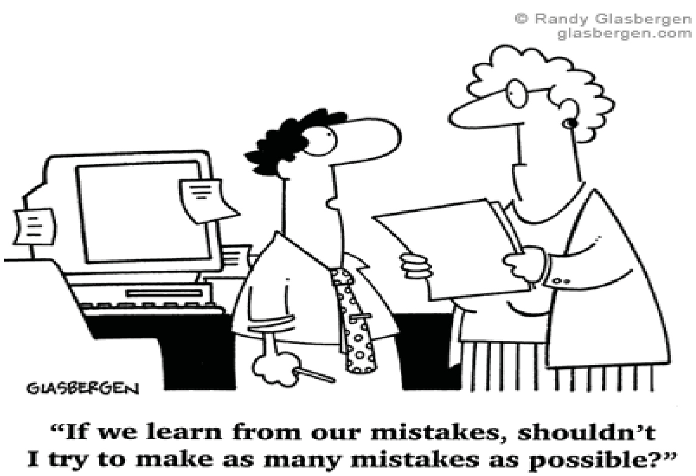
After analyzing the qualifications in audit reports, QARC may make following recommendations:

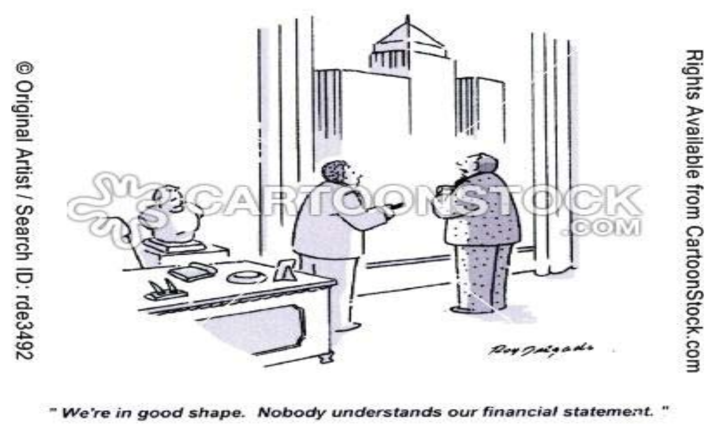
- If, prima facie, QARC is of the view that an audit qualification is not significant, it may suggest steps for rectification of such qualification;
- If, prima facie, QARC is of the view that an audit qualification is significant and the explanation given by the listed company concerned / its Audit Committee is unsatisfactory, the case may be referred to the Financial Reporting Review Board of ICAI for their opinion on whether the qualification is justified or requires restatement of the books of accounts of the listed company;
- If an audit qualification is not quantifiable, QARC may suggest rectification of the same within a stipulated period

SEBI QARC

Clarification on SEBI's Circular dated June 05, 2013:

"*it is clarified that the restatement of books of accounts indicated in Paragraph 5 of the said circular shall mean that the company is required to disclose the effect of revised financial accounts by way of revised pro-forma financial results immediately to the shareholders through Stock Exchange(s). However, the financial effects of the revision may be carried out in the annual accounts of the subsequent financial year as a prior period item so that the tax impacts, if any, can be taken care of*"





Thank You

CA Nilesh S Vikamsey

E-mail: ***nilesh@kkc.in***