

Chapter 1 Ind AS 1 - Presentation of Financial Statements

<i>An Overview</i>	
Deals with	Presentation and disclosure requirements
Corresponding IAS/IFRS	IAS 1
Corresponding SIC/IFRIC	None
Corresponding AS	AS 1

1. Prelusion

This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity's financial statements of previous periods and the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

The Ministry of Corporate Affairs has notified format of financial statements for companies through Schedule III compliant with Indian Accounting Standard (Ind AS).

IAS 1 is the standard that corresponds with Ind AS 1, with a few important carve-outs. Under Indian GAAP, AS 1 only prescribes disclosure of accounting policies. AS 1 does not prescribe components or format of financial statements. Ind AS 1 is wider in scope compared to AS 1.

2. Scope

An entity shall apply this Standard in preparing and presenting general purpose financial statements in accordance with Ind ASs.

(Indian Accounting Standards (Ind ASs) are notified under Sec.133 of the Companies Act, 2013).

Coverage of the standard:

- This Standard applies equally to all entities, including those that present consolidated financial statements in accordance with Ind AS 110, *Consolidated Financial Statements*, and those that present separate financial statements in accordance with Ind AS 27, *Separate Financial Statements*.
- This Standard does not apply to the *structure and content of condensed interim financial statements* prepared in accordance with Ind AS 34, *Interim Financial Reporting*.
- This Standard prescribes the basis for presentation of general purpose financial statements.

General purpose financial statements (referred to as 'financial statements') are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

3. General Features

3.1 Presentation of true and fair view and compliance with Ind AS

Presentation of true and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the *Conceptual Framework for Financial Reporting under Indian Accounting Standards (Conceptual Framework)* issued by the ICAI*.

(*An entity shall apply amendments to the references to *the Conceptual Framework in Ind AS* issued in 2021 for annual periods beginning on or after the 1st April, 2021. An entity shall apply the amendments to Ind AS 1 retrospectively in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.)

Presentation of a true and fair view also requires an entity:

- (a) To select and apply accounting policies in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Ind AS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of an Ind AS that specifically applies to an item;
- (b) To present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- (c) To provide additional disclosures when compliance with the specific requirements in Ind ASs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

3.2 Inappropriate accounting policies

An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

An entity whose financial statements comply with Ind ASs shall make an explicit and unreserved statement of such compliance with the notes. An entity shall not describe financial statements as complying with Ind ASs unless they comply with all the requirements of Ind ASs.

Example – Explicit and unreserved statement of compliance
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<u>Statement of compliance</u>

These financial statements have been prepared in accordance with Ind ASs notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended thereafter.
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Illustration:

ABC Ltd prepares its financial statements that contain an explicit and unreserved statement of compliance with Ind ASs. However, the auditor's report on those financial statements contains a qualification because of disagreement on application of an Ind AS.

In such case, is it acceptable for the entity to make an explicit and unreserved statement of compliance with Ind ASs?

Response:

Yes, the entity can make an unreserved and explicit statement of compliance with Ind ASs, even though the auditor's report contains a qualification. Preparation of financial statements is the responsibility of the management and hence, disagreement on application of an Ind AS with the auditors will not cause the management to remove the explicit and unreserved statement of compliance.

3.3 Departure from a requirement of an Ind AS

The entity shall depart from a requirement of an Ind AS if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure. In such case, the entity shall disclose that:

- (a) management has concluded that the financial statements present a true and fair view of the entity's financial position, financial performance and cash flows;
- (b) it has complied with applicable Ind ASs, except that it has departed from a particular requirement to present a true and fair view;
- (c) the title of the Ind AS from which the entity has departed, the nature of the departure, including the treatment that the Ind AS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the *Conceptual Framework* and the treatment adopted; and
- (d) for each period presented, the financial effect of the departure on each item in the financial statements that would have been reported in complying with the requirement.

When an entity has departed from a requirement of an Ind AS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in points (c) and (d) above.

In the extremely rare circumstances in which management concludes that compliance with a requirement in an Ind AS would be so misleading that it would conflict with the objective of financial statements set out in the *Conceptual Framework*, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

- (a) the title of the Ind AS in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the *Conceptual Framework*; and
- (b) for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to present a true and fair view.

3.4 Going concern

An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

3.5 Accrual basis of accounting

An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. An entity recognizes assets, liabilities, income and expenses when they satisfy the definitions and recognition criteria for those elements in the financial statements.

3.6 Materiality and aggregation

Material:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Information is obscured if it is communicated in a way that would have a similar effect for primary users of financial statements to omitting or misstating that information. The following are examples of circumstances that may result in material information being obscured:

- (a) information regarding a material item, transaction or other event is disclosed in the financial statements but the language used is vague or unclear;
- (b) information regarding a material item, transaction or other event is scattered throughout the financial statements;
- (c) dissimilar items, transactions or other events are inappropriately aggregated;
- (d) similar items, transactions or other events are inappropriately disaggregated; and
- (e) the understandability of the financial statements is reduced as a result of material information being hidden by immaterial information to the extent that a primary user is unable to determine what information is material.

Assessing whether information could reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general purpose financial statements requires an entity to consider the characteristics of those users while also considering the entity's own circumstances.

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial statements for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial statements are directed. Financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the

information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

An entity shall present separately each material class of similar items. An entity shall present separately items of a dissimilar nature or function unless they are immaterial except when required by law.

3.7 Offsetting

An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an Ind AS.

An entity reports separately both assets and liabilities, and income or expenses except when:

- (i) the offsetting reflects the substance of the transaction undertaken; and
- (ii) offsetting would not detract the ability of the users to understand the transaction

Measuring assets net of valuation allowances viz. obsolescence allowances on inventories and doubtful debts allowances on receivables **is not offsetting**

In case of Ind AS 115, Revenue on Contracts with Customers entity is required to measure revenue from contracts with customers at the amount of consideration to which the entity expects to be entitled to in exchange for transferring promised goods or services. For example, amount of revenue recognized reflects any trade discount and volume rebates the entity allows.

Illustrations:

- (a) *Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary - whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?*

Response:

As per Ind AS 1, offsetting is permitted only when the offsetting reflects the substance of the transaction.

In the given case, the agreement/arrangement if any, between the holding and subsidiary company should be considered. If the arrangement is to reimburse the costs incurred by the holding company on behalf of the subsidiary company, the same may be presented net. It should be ensured that the substance of the arrangement is that the payments are actually in the nature of reimbursement.

- (b) *Whether gain on sale of a non-monetary asset and loss on sale of another non-monetary asset can be offset?*

Response:

Ind AS 1 requires an entity to present on a net basis, gains and losses arising from a group of similar transactions. Accordingly, gains or losses arising on disposal of various items of assets shall be presented on net basis. However, if they are material, gains or losses should be presented separately.

- (c) *When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be offset?*

Response:

Ind AS 1 prescribes that assets and liabilities and income and expenses should be reported separately, unless offsetting reflects the substance of the transaction. In addition to this, as per Ind AS 32, a financial asset and a financial liability should be offset if the entity has legally enforceable right to set off and the entity intends either to settle on net basis or to realise the asset and settle the liability simultaneously.

In accordance with the above, the receivable and payable should be offset against each other and net amount is presented in the balance sheet if the entity has a legal right to set off and the entity intends to do so. Otherwise, the receivable and payable should be reported separately.

- (d) *In case of a company acting as an agent and having sub-agents, whether commission paid to sub-agents and the commission received as an agent can be offset?*

Response:

Net presentation in the given case would not be appropriate as it would not reflect substance of the transaction and would detract from the ability of users to understand the transaction. Therefore, commission paid to sub-agent should not be offset against commission earned by the company.

3.8 Frequency of reporting

An entity shall present a complete set of financial statements (including comparative information) **at least annually**. When an entity changes the end of its reporting period and presents financial statements for a period longer or shorter than 1 year, an entity shall disclose, in addition to the period covered by the financial statements:

- (a) the reason for using a longer or shorter period, and
- (b) the fact that amounts presented in the financial statements are not entirely comparable.

3.9 Comparative information

Except when Ind ASs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements.

An entity shall present, as a minimum, two balance sheets, two statements of profit and loss, two statements of cash flows and two statements of changes in equity, and related notes. [Para 38A]

Change in Accounting policy, retrospective re-statement or reclassification: an entity shall present a **third balance sheet as at the beginning of the preceding period** (referred to as the opening balance sheet) in addition to the minimum comparative financial statements required above IF:

- (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; **and**

- (b) the retrospective application/restatement or reclassification has a material effect on the information in the balance sheet at the beginning of the preceding period [Para 40A]

The entity in such a case shall prepare 3 balance sheets at (a) end of the current period; (b) end of the preceding period; and (c) beginning of the preceding period.

In case of opening balance sheet as at the beginning of the preceding period **related notes to accounts need not be presented.**

The date of the opening balance sheet shall be as at the beginning of the preceding period.

3.10 Consistency of Presentation:

An entity shall retain the same presentation and classification of items in its financial statements from one period to another unless –

- (a) the other presentation or classification would be more appropriate having regard to the criteria and application of accounting policies in Ind AS 8; or
- (b) an Ind AS requires a change in the presentation

4. Complete Set of Financial Statements

A complete set of financial statements comprises:

- (a) a balance sheet as at the end of the period;
- (b) a statement of profit and loss for the period;
- (c) statement of changes in equity for the period;
- (d) a statement of cash flows for the period;
- (e) notes, comprising a summary of significant accounting policies and other explanatory information;
- (f) comparative information in respect of preceding period; and
- (g) a balance sheet at the beginning of the preceding period when an entity applies an accounting policy *retrospectively* or makes a retrospective re-statement of items in its financial statements or when it re-classifies items in its financial statements.

4.1 Statement of financial position (Balance sheet)

This standard does not prescribe the order or format in which an entity presents items.

(i) Minimum information to be presented

The standard prescribes minimum line items that should be included in the balance sheet.

Additional line items: An entity shall present additional line items, headings and sub-totals in the balance sheet when such presentation is relevant to an understanding of the entity's financial position.

Line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position.

Deferred tax assets/liabilities: An entity shall not classify deferred tax assets/ liabilities under current and non-current assets (liabilities), *rather* shall be presented as a separate line item in the balance sheet.

Minimum information: As a minimum, the balance sheet shall include line items that present the following amounts:

- (a) property, plant and equipment;
- (b) investment property;
- (c) intangible assets;
- (d) financial assets [excluding amounts shown under (e), (h) and (i)];
- (e) investments accounted for using the equity method;
- (f) biological assets within the scope of Ind AS 41, *Agriculture*;
- (g) inventories;
- (h) trade and other receivables;
- (i) cash and cash equivalents;
- (j) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations*;
- (k) trade and other payables;
- (l) provisions;
- (m) financial liabilities [excluding amounts shown under (k) and (l)];
- (n) liabilities and assets for current tax, as defined in Ind AS 12, *Income Taxes*;
- (o) deferred tax liabilities and deferred tax assets, as defined in Ind AS 12;
- (p) liabilities included in disposal groups classified as held for sale in accordance with Ind AS 105;
- (q) non-controlling interests, presented within equity; and
- (r) issued capital and reserves attributable to owners of the parent.

An entity makes the judgement about whether to present additional items separately on the basis of an assessment of:

- (a) the nature and liquidity of assets;
- (b) the function of assets within the entity; and
- (c) the amounts, nature and timing of liabilities.

Concept Elucidation
Does Ind AS 1 prescribe any format for the presentation of the financial statements?
No, Ind AS 1 does not prescribe any format for presentation of financial statements. It prescribes minimum information required to be presented.

However, if formats for presentation are issued under any applicable law and regulations, the same should be complied with. For example, for listed companies' quarterly results, Securities and Exchange Board of India (SEBI) prescribes a format. In that case, the format prescribed by SEBI has to be complied with.

Balance Sheet as per Schedule III in compliance with Ind AS notified on 4th April, 2016

Particulars	Note	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
ASSETS <u>(1) Non-current assets</u> (a) Property, plant and equipment (b) Capital work-in-progress (c) Investment property (d) Goodwill (e) Other intangible assets (f) Intangible assets under development (g) Biological assets other than bearer plants (h) Financial assets (i) Investments (ii) Trade receivables (iii) Loans (iv) Others (to be specified) (i) Deferred tax assets (net) (j) Other non-current assets <u>(2) Current assets</u> (a) Inventories (b) Financial assets (i) Investments (ii) Trade receivables (iii) Cash and cash equivalents (iv) Bank balances other than (iii) above (v) Loans (vi) Others (to be specified) (c) Current tax assets (Net) (d) Other current assets Total Assets			

Particulars	Note	Figures as at the end of current reporting period	Figures as at the end of the previous reporting period
EQUITY AND LIABILITIES <u>Equity</u> (a) Equity share capital (b) Other equity <u>Liabilities</u> (1) <i>Non-current liabilities</i> (a) Financial liabilities (i) Borrowings (ii) Trade payables (iii) Other financial liabilities (other than those specified in item (b), to be specified) (b) Provisions (c) Deferred tax liabilities (Net) (d) Other non-current liabilities (2) <i>Current liabilities</i> (a) Financial liabilities (i) Borrowings (ii) Trade payables (iii) Other financial liabilities (other than those specified in item (c)) (b) Other current liabilities (c) Provisions (d) Current tax liabilities (Net) Total Equity and Liabilities			

Note:

Under the heading “Equity and Liabilities”, for the words “Trade payables” at both the places where they occur, the following shall be substituted, namely: –

Trade Payables:-

- (A) total outstanding dues of micro enterprises and small enterprises; and
- (B) total outstanding dues of creditors other than micro enterprises and small enterprises.”

i. In the “Notes” under the heading “General Instructions for preparation of Balance sheet”

A. In Paragraph 6

I. Under the heading “A. Non Current Assets”

- (i)** under sub-heading “VII. Trade Receivables”, for item (i), the following shall be substituted, namely: –

“(i) Trade Receivables shall be sub-classified as:

- (a) Trade Receivables considered good - Secured;
- (b) Trade Receivables considered good - Unsecured;
- (c) Trade Receivables which have significant increase in Credit Risk; and
- (d) Trade Receivables - credit impaired.”;

- (ii)** under sub-heading “VIII. Loans”, for item (ii), the following shall be substituted, namely: –

“(ii) Loans Receivables shall be sub-classified as:

- (a) Loans Receivables considered good - Secured;
- (b) Loans Receivables considered good - Unsecured;
- (c) Loans Receivables which have significant increase in Credit Risk; and
- (d) Loans Receivables - credit impaired,”;

II. under the heading “B. Current Assets”, –

- (i)** under sub-heading “III. Trade Receivables”, for item (i), the following shall be substituted, namely: –

“(i) Trade Receivables shall be sub-classified as:

- (a) Trade Receivables considered good - Secured;
- (b) Trade Receivables considered good - Unsecured;
- (c) Trade Receivables which have significant increase in Credit Risk; and
- (d) Trade Receivables - credit impaired.”;

- (ii)** under sub-heading “V. Loans”, for item (ii), the following shall be substituted, namely: –

“(ii) Loans Receivables shall be sub-classified as:

- (a) Loans Receivables considered good - Secured;
- (b) Loans Receivables considered good - Unsecured;
- (c) Loans Receivables which have significant increase in Credit Risk; and
- (d) Loans Receivables - credit impaired.”;

- (III) after the heading “F. Current Liabilities” and the entries relating thereto, the following shall be inserted, namely: –

“FA. Trade Payables

The following details relating to micro, small and medium enterprises shall be disclosed in the notes: –

- (a) the principal amount and the interest due thereon (to be shown separately) remaining unpaid to any supplier at the end of each accounting year;
- (b) the amount of interest paid by the buyer in terms of section 16 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006), along with the amount of the payment made to the supplier beyond the appointed day during each accounting year;
- (c) the amount of interest due and payable for the period of delay in making payment (which has been paid but beyond the appointed day during the year) but without adding the interest specified under the Micro, Small and Medium Enterprises Development Act, 2006;
- (d) the amount of interest accrued and remaining unpaid at the end of each accounting year; and
- (e) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues above are actually paid to the small enterprise, for the purpose of disallowance of a deductible expenditure under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006.

Explanation: The terms ‘appointed day’, ‘buyer’, ‘enterprise’, ‘micro enterprise’, ‘small enterprise’ and ‘supplier’, shall have the same meaning as assigned to them under clauses (b), (d), (e), (h), (m) and (n) respectively of section 2 of the Micro, Small and Medium Enterprises Development Act, 2006.”.

[vide MCA notification dated 11th October, 2018]

(ii) Current/non-current distinction:

An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications in its balance sheet.

When presentation based on liquidity provides information that is more reliable and more relevant, the entity shall present all assets and liabilities in the order of liquidity.

Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than 12 months for each asset and liability line item that combines amounts expected to be recovered or settled:

- (a) not more than 12 months after the reporting period, and
- (b) more than 12 months after the reporting period.

Concept Elucidation

How should a sales deferral loan be classified?

Sales tax deferrals are in the nature of interest free/very low rate of interest loan from the Government. Distinction between current or non-current depends on the terms of repayment, as agreed with the Government. For example, in a sales tax deferment scheme, an entity is entitled to defer the payment of sales tax collected for a period of 10 years. From the 11th year, the entity is required to pay the outstanding amount equally over a period of 5 years. If the balance deferred at the beginning of the 11th year is Rs 10 millions, then as at the end of year 11, an amount of Rs 2 million will be disclosed as current which is due to be settled within 12 months after the reporting period and remaining amount will be disclosed as non-current.

(iii) Current assets and current liabilities

Current assets: An entity shall classify an asset as current *when*:

- (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
- (b) it holds the asset primarily for the purpose of trading;
- (c) it expects to realise the asset within 12 months after the reporting period; or
- (d) the asset is cash or a cash equivalent (as defined in Ind AS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Examples include, inventories, trade payables, financial assets sold or realised within 12 months after the reporting period or as part of the normal operating cycle even when they are not expected to be realised within 12 months after the reporting period.

An entity shall classify all other assets as *non-current*, viz., tangible, intangible and financial assets of a long-term nature.

Operating cycle: The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

When the entity's normal operating cycle is not clearly identifiable, it is assumed to be 12 months.

Illustration:

PH Ltd manufactures two-wheeler vehicles. The time between purchasing of underlying raw materials to manufacture the two-wheeler vehicles and the date the entity completes the production and delivers to its customers is 9 months. Customers settle the dues after a period of 8 months from the date of sale.

- (a) Will the inventory and the trade receivables be current in nature?
- (b) Assuming that the production time was say 14 months and the time lag between the date of sale and collection from customers is 12 months, will the answer be different?

Inventory and debtors need to be classified in accordance with the requirement of Ind AS 1, which provides that an asset shall be classified as current if an entity expects to realise the same, or intends to sell or consume it in its normal operating cycle.

- (a) In this case, time lag between the purchase of inventory and its realisation into cash is 17 months (9 months + 8 months). Both inventory and the debtors would be classified as current if the entity expects to realise these assets in its normal operating cycle.

- (b) No, the answer will be the same as the classification of debtors and inventory depends on the expectation of the entity to realise the same in the normal operating cycle. In this case, time lag between the purchase of inventory and its realisation into cash is 26 months (14 months + 12 months). Both inventory and debtors would be classified as current if the entity expects to realise these assets in the normal operating cycle.

Current liabilities: An entity shall classify a liability as current *when*:

- (a) it expects to settle the liability in its normal operating cycle;
- (b) it holds the liability primarily for the purpose of trading;
- (c) the liability is due to be settled within 12 months after the reporting period; or
- (d) it does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as *non-current*.

Where trade payables and other liabilities are a *part of the working capital used in entity's operating cycle*, the entity classifies such operating items as current liabilities even if they are due to be settled more than 12 months after the reporting period.

Concept Elucidation

How should a loan, repayable on demand, given by a holding company to a subsidiary be classified in the books of holding company and the subsidiary company?

An asset is classified as current when an entity expects to realise the asset within a period of 12 months after the reporting period. If the loans have been given with an understanding that these loans would not be called for repayment, it should be classified as a non-current asset in the books of the holding company. The classification would remain same irrespective of the fact that the loan agreement contains a clause that these are repayable on demand.

A liability, on the other hand, is classified as current if the entity does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Since the loan would become due immediately as and when demanded by the holding company and the subsidiary company does not have an unconditional right to defer the settlement, it should be classified as current liability.

Classification of liabilities (Current and Non Current):

Particulars	Classification of the liability
Under an existing loan facility, the entity expects and has the discretion to refinance or roll over an obligation for at least 12 months after the reporting period	Non-current <i>even if</i> it would otherwise be due within a shorter period
Where under an existing loan facility, the refinancing or rolling over the obligation is not at the discretion of the entity	Current

Particulars	Classification of the liability
In case of a long-term loan arrangement, there is a breach of a material provision of the arrangement on or before the end of the reporting period and the liability becomes payable on demand at the end of the reporting period	Current
Continuing with the above example, if lender agreed before the end of the reporting period to allow grace period ending at least 12 months after the reporting period and the lender cannot demand immediate re-payment	Non-current
Continuing with the above example, if such approval from lender is received after the reporting date but before the approval for financial statements are approved for issue	Non-current

Illustration 1:

ABZ Ltd has taken a loan facility from a bank that is to be repaid on 31st July, 2021. On 15th March, 2021, ABZ Ltd and the bank entered into an arrangement, whereby the existing outstanding loan will, unconditionally, roll into the new facility which expires on 31st July, 2024.

- How should such loan be classified in the balance sheet of the entity as on 31st March, 2021?
- Will the answer be different if the new facility is agreed upon on 15th April, 2021?
- Will the answer to (a) be different if the existing facility is from one bank and the new facility is from another bank?

Response:

- The loan is not due for payment on 31st March, 2021. The entity and the bank have agreed for the said roll over prior to the end of the reporting period. Since the entity has an unconditional right to defer the settlement of the liability for at least 12 months after the reporting period, i.e., till 2024, the loan should be classified as non-current.
- Yes, the answer will be different if the arrangement for roll over is agreed upon after 31st March, 2021 because as per Ind AS 1, "an entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if: (a) the original term was for a period longer than twelve months, and (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are approved for issue." As on 31st March, 2021, ABZ Ltd does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Hence, the loan is to be classified as current.
- Yes, loan facility arranged with new bank cannot be treated as refinancing. In this case, ABZ Ltd will have to repay the loan on 31st July, 2021, i.e., within a period of 12 months from the end of the reporting period. Hence, the existing loan will be classified as current liability.

Illustration 2:

A Ltd in the business of supplying electricity to consumers, collects security deposits from consumers at the time of electricity connection, which is refundable to consumers when connection is discontinued/surrendered. A Ltd expects that consumers are not likely to surrender their connection anywhere in the near future. In the books of A Ltd, the security deposits are classified as 'non-current liability'? Whether such a classification is correct?

Response:

An entity shall classify a liability as current *when*:

- (a) it expects to settle the liability in its normal operating cycle;
- (b) it holds the liability primarily for the purpose of trading;
- (c) the liability is due to be settled within 12 months after the reporting period; or
- (d) it does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

From the above, it may be noted that in order to be classified as non-current liability, A Ltd should have an unconditional right to defer the settlement of the liability by at least 12 months after the reporting period.

In the given case, although A Ltd expects that consumers are not likely to surrender their connection and claim refund, surrendering of connection is not a condition within the control of the entity and hence A Ltd does not have a right to defer refund of deposit. A Ltd should classify the said security deposits in the books as 'current liability'.

(iv) Disclosure – *either in the balance sheet or notes to accounts*

An entity shall disclose, either in the balance sheet or in the notes, further sub-classifications of the line items presented, classified in a manner appropriate to the entity's operations.

The detail provided in sub-classifications depends on the requirements of Ind ASs and on the size, nature and function of the amounts involved.

For example:

- (a) Items of property, plant and equipment are disaggregated into classes in accordance with Ind AS 16;
- (b) Receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;
- (c) Inventories are disaggregated, in accordance with Ind AS 2, *Inventories*, into classifications such as merchandise, production supplies, materials, work-in-progress and finished goods;
- (d) Provisions are disaggregated into provisions for employee benefits and other items; and equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.

Statement of profit and loss and other comprehensive income**(i) Presentation**

An entity shall present a single statement of profit and loss, with profit or loss and other comprehensive income presented in two sections. The sections shall be presented together, with the profit or loss section presented first followed directly by the other comprehensive income section.

The statement of profit and loss shall present, in addition to the profit or loss and other comprehensive income sections:

- (a) *Profit or loss* is the total of income less expenses, *excluding* components of other comprehensive income;
- (b) *Total other comprehensive income* comprise of items of income and expenses (including re-classification adjustments) that are not recognised in profit or loss as required or permitted by other Ind ASs;
- (c) *Comprehensive income for the period* being the total of profit or loss and other comprehensive income.

Allocation of profit and loss and comprehensive income for the period (in case of consolidated financial statements): Further classification shall be as follows (as part of the statement of profit or loss)

(a) Profit or loss for the period attributable to:

- (i) non-controlling interests, and
- (ii) owners of the parent

(b) Comprehensive income for the period attributable to:

- (i) non-controlling interests, and
- (ii) owners of the parent

(ii) Information to be presented in the profit or loss section of the statement of profit or loss

In addition to items required by other Ind ASs, the profit or loss section of the statement of profit and loss shall include line items that present the following amounts for the period:

- (a) revenue, presenting separately interest revenue calculated using the effective interest method;
- (b) gains and losses arising from the derecognition of financial assets measured at amortised cost; finance costs;
- (c) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Ind AS 109; share of the profit or loss of associates and joint ventures accounted for using the equity method;
- (d) if a financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a

difference between the previous amortised cost of the financial asset and its fair value at the reclassification date (as defined in Ind AS 109);

- (e) if a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss;
- (f) tax expense;
- (g) a single amount for the total of discontinued operations (see Ind AS 105).

An entity shall present additional line items, headings and sub-totals in the statement of profit and loss, when such presentation is relevant to an understanding of the entity's financial performance.

Extraordinary items: An entity **shall not** present any items of income or expense as extraordinary items, in the statement of profit and loss or in the notes.

Nature of expense method: An entity shall present an analysis of expenses recognised in profit or loss using a classification based on the nature of expense method.

In the analysis based on the 'nature of expense' method, an entity aggregates expenses within profit or loss according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and does not reallocate them among functions within the entity. This method is simple to apply because no allocations of expenses to functional classifications are necessary.

An example of a classification using the nature of expense method is as follows:

Revenue		X
Other income	X	
Changes in inventories of finished goods and work in progress	X	
Raw materials and consumables used	X	
Employee benefits expense	X	
Depreciation and amortisation expense	X	
Other expenses	X	
Total expenses		(X)
Profit before tax		X

Materiality: When items of income or expense are material, an entity shall disclose their nature and amount separately. **Such information shall be presented either in the statement of profit and loss or in the notes.**

This includes the following:

- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
- (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

- (c) disposals of items of property, plant and equipment;
 - (d) disposals of investments;
 - (e) discontinued operations; and
 - (f) litigation settlements.
- (iii) Information to be presented in other comprehensive income section of the statement of profit or loss**

Components of other comprehensive income are:

- (a) changes in revaluation surplus (see Ind AS 16, *Property, Plant and Equipment* and Ind AS 38, *Intangible Assets*);
- (b) remeasurements of defined benefit plans (see Ind AS 19, *Employee Benefits*);
- (c) gains and losses arising from translating the financial statements of a foreign operation (see Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*);
- (d) gains and losses from investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109, *Financial Instruments*;
- (da) gains and losses on financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of Ind AS 109;
- (e) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of Ind AS 109 (see Chapter 6 of Ind AS 109);
- (f) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of Ind AS 109);
- (g) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see Chapter 6 of Ind AS 109);
- (h) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see Chapter 6 of Ind AS 109).

Author's Exegesis

Under Indian GAAP, there is no concept of OCI. Hence, as required by relevant standards, certain items like *Revaluation Reserve* (AS 10, *Fixed Assets*), *Foreign Currency Translation Reserve* (AS 11, *The Effects of Changes in Foreign Exchange Rates*) are accounted for directly in reserves. Technically, these items are in the nature of income or expense (explained separately below). As per the Framework, all items on income and expenses must be presented in the Statement of Profit or Loss. Hence, to harmonize the requirements of the specific standards with that of the Framework, Ind AS requires such items to be presented in the OCI. As per Ind AS 1, *Presentation of Financial Statements*, OCI comprises items of

income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other Ind ASs.

Are these items an item of income/expense?

Income is increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants. For example – revaluation reserve is increase in economic benefits in form of increase in property, plant and equipment that result in increase in equity, which is not relating to contributions from equity participants. Similar is the case with FCTR, hedge reserve, FVOCI reserve, etc.

Is the list given in Ind AS 1 exhaustive?

No.

As per Ind AS 1, the components of other comprehensive income include:

- (a) changes in revaluation surplus (see Ind AS 16, *Property, Plant and Equipment* and Ind AS 38, *Intangible Assets*);
- (b) remeasurements of defined benefit plans (see Ind AS 19, *Employee Benefits*);
- (c) gains and losses arising from translating the financial statements of a foreign operation (see Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*);
- (d) gains and losses from investments in equity instruments designated at FVOCI;
- (da) gains and losses on financial assets measured at FVOCI;
- (e) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at FVOCI (see Ind AS 109);
- (f) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see Ind AS 109);
- (g) changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see Ind AS 109);
- (h) changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see Ind AS 109).

As can be seen above, the list is inclusive and not exhaustive. Any other item that fits into the definition of an OCI item will be presented in OCI. For example, as per Ind AS 103, *Business Combinations*, “in extremely rare circumstances, an acquirer will make a bargain purchase in a business combination in which the amount in paragraph 32(b) exceeds the aggregate of the amounts specified in paragraph 32(a). If that excess remains after applying the requirements in paragraph 36, the acquirer shall recognise the resulting gain in other comprehensive income on the acquisition date and accumulate the same in equity as capital reserve. The gain shall be attributed to the acquirer.” Hence, in these circumstances, bargain purchase would be presented in OCI, though this item has not been mentioned in the list given in Ind AS 1.

The other comprehensive income section shall present line items for the amounts for the period, of:

- (a) items of other comprehensive income classified by nature and grouped into those that, in accordance with other Ind ASs:

- i. will not be reclassified subsequently to profit or loss; and
 - ii. will be reclassified subsequently to profit or loss when specific conditions are met
- (b) The share of other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items, that in accordance with other Ind ASs:
- i. will not be reclassified subsequently to profit or loss; and
 - ii. will be reclassified subsequently to profit or loss when specific conditions are met

Other comprehensive income for the period: An entity shall disclose the amount of income-tax relating to each item of other comprehensive income, including reclassification adjustments, either in the statement of profit and loss or in the notes.

An entity may present items of other comprehensive income either:

- (a) *net of related taxes; or*
- (b) *before related tax effects with one amount shown for the aggregate amount of income-tax relating to those items – if this option is selected, the tax effect shall be allocated to items of other comprehensive income that will be subsequently reclassified to profit or loss and those that will not be reclassified to profit or loss.*

Statement of profit and loss as per Schedule III in compliance with Ind AS notified on 6th April, 2016

	Particulars	Note No.	Figures for the current reporting period	Figures for the previous reporting period
I	Revenue from operation			
II	Other income			
III	Total Income (I + II)			
IV	Expenses			
	Cost of material consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, Stock-in-Trade and work-in-progress			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total expenses (IV)			
V	Profit/(loss) before exceptional items and tax (I- IV)			